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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

ALMA MOTOR COMPANY,
Petitioner,

vs.

THE TIMKEN-DETROIT AXLE COMPANY

AND

THE UNITED STATES OF AMERICA

APPENDIX TO PETITIONER'S BRIEF

Containing

1. PUBLIC LAW 768—77TH CONGRESS.
2. HEARINGS BEFORE COMMITTEE ON PATENTS, 77TH CONGRESS ON H. R. 7620 (PUBLIC LAW 768).
3. REPORT NO. 2602 OF HOUSE OF REPRESENTATIVES COMMITTEE ON PATENTS.
4. REPRINT FROM PAGES OF CONGRESSIONAL RECORD, VOL. 88, NO. 178, PP. 8482 TO 8484 INC. PROCEEDINGS IN SENATE, THURSDAY, OCTOBER 15, 1942.
5. REPRINT FROM PAGES OF CONGRESSIONAL RECORD, VOL. 88, NO. 184, PP. 8823 TO 8825 INC. PROCEEDINGS IN HOUSE, THURSDAY, OCTOBER 22, 1942.

Eclipse Composition Company 243 W. Larned St. Detroit

[PUBLIC LAW 768—77TH CONGRESS]

[CHAPTER 634—2D SESSION]

[S. 2794]

AN ACT

To provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however*, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against

the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable

directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

Approved, October 31, 1942.

2

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

HEARINGS

BEFORE THE

COMMITTEE ON PATENTS
HOUSE OF REPRESENTATIVES

SEVENTY-SEVENTH CONGRESS

SECOND SESSION

ON

H. R. 7620

A BILL TO PROVIDE FOR ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES, AND FOR OTHER PURPOSES

OCTOBER 13, 14, 15, 1942

UNITED STATES
GOVERNMENT PRINTING OFFICE
78198 WASHINGTON : 1942

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CONTENTS

Page

Statements:
American Bar Association (see Chester L. Davis) 51
American Patent Law Association (see Karl Fenning) 52, 65, 75
Burgess, Newton A., president, New York Patent Law Association, 141 Broadway, New York City 25
Chappell, Ralph L., Procuregment Legal Division, Office of the Secretary of the Navy 40, 74
Commerce Department (see Hon. C. C. Henry) 45, 64, 79
Davis, Chester L., chairman, Committee on Legislation, Patent Section, American Bar Association, Commonwealth Building, 1625 K Street, NW., Washington, D. C., letters 51
Emery, James A., chief counsel, National Association of Manufacturers, Investment Building, Washington, D. C 68
Fenning, Karl, patent attorney, National Press Building, Washington, D. C 52, 65, 75
Henry, Hon. Conder C., Assistant Commissioner of Patents 45, 64, 79
Justice Department (see D. L. Kreeger) 47, 66
Kreeger, D. L., attorney, Department of Justice, Washington, D. C. 47, 66
Middleton, Arthur, assistant secretary, National Advisory Council to the House Committee on Patents, 570 Lexington Avenue, New York City 29
National Association of Manufacturers, 14 West Forty-ninth Street, New York City (see James A. Emery) 68
Navy Department:
Hon. James Forrestal, Acting Secretary of Navy, letter 31
(see Ralph L. Chappell) 40, 74
New York Patent Law Association (see Newton A. Burgess) 25
Ould, R. S., patent attorney, Washington, D. C 80
Patent Office (see Hon. C. C. Henry) 45, 64, 79
Patterson, Col. Earl S., War Department 5, 33, 77
Vanderwerker, Col. Francis H., chief counsel, Patents Division, War Department 71
War Department:
Hon. Henry L. Stimson, Secretary of War, letter 3
(see Col. Earl S. Patterson) 5, 33, 77
(see Col. Francis H. Vanderwerker) 71

Bills:
H. R. 7620, as introduced 1
H. R. 7620, with amendments proposed by War Department 5

Appendix—Letters, telegrams, etc.:
Allen, Charles R., Washington Loan & Trust Building, Washington, D. C 82
Andrus, Elwin A., First Wisconsin National Bank Building, Milwaukee, Wis 82
Chicago Patent Law Association of, Lester B. Mann, vice president, 53 West Jackson Boulevard, Chicago, Ill 83
Christy, Bayard H., c/o Christy, Parmelee & Strickland, 1621 Farmers Bank Building, Pittsburgh, Pa 84
Cleveland Patent Law Association, Mr. Arthur J. Hudson, president, Union Commerce Building, Cleveland, Ohio 85
Cole, Francis G., c/o Watson, Cole, Grindle & Watson, 815 Fifteenth Street, NW., Washington, D. C 85
Cooke, Horace B., Munsey Building, Washington, D. C 85
Corder, K. Wilson, First National Bank Building, Atlanta, Ga 87
Darby, Samuel E., Jr., c/o Darby & Darby, Chrysler Building, 405 Lexington Avenue, New York City 88

Appendix—Letters, telegrams, etc.—Continued. Page

Dow Chemical Co., Mr. E. C. Burdick, patent department, Midland, Mich. 88

Harris, Ford W., c/o Harris, Kiech, Foster & Harris, 471 Chamber of Commerce Building, Los Angeles, Calif. 88

Hawgood, Harvey R., c/o Hawgood and Van Horn, 1137 Leader Building, Cleveland, Ohio. 93

Heard, Nathan, c/o Heard, Smith & Tennant, 77 Franklin Street, Boston, Mass. 94

Kane, J. J., 1126 South Seventieth Street, Milwaukee, Wis. 94

Kreeger, D. L., Department of Justice, Washington, D. C. 102

Manufacturers Aircraft Association, Inc., John A. Sanborn, general manager, 30 Rockefeller Plaza, Suite 726, New York, N. Y. 96

Milwaukee, The Patent Law Association of, Mr. Edwin B. H. Tower, president, First Wisconsin National Bank Building, Milwaukee, Wis. 97

Packard Motor Car Co., Milton Tibbetts, vice president, Detroit, Mich. 97

Patent Office, Hon. Conway P. Coe, Commissioner of Patents, Washington, D. C. 97

Rochester Patent Group, Mr. B. E. Shlesinger, chairman, c/o Gleason Works, 1000 University Avenue, Rochester, N. Y. 98

Soans, Cyril A., c/o Soans, Pond & Anderson, 2157 Field Building, 135 South LaSalle Street, Chicago, Ill. 99

Stevenson, Maxwell, Ocean Gate, N. J. 100

Walton, Edward R., Jr., c/o Williamson & Walton, Munsey Building, Washington, D. C. 100

Williams, Henry D., chairman, committee on patents, trade-marks, and copyrights, New York County Lawyers Association, 225 Broadway, New York City. 101

Willits, George H., General Motors Building, Detroit, Mich. 101

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

TUESDAY, OCTOBER 13, 1942

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PATENTS,
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., Hon. Fritz G. Lanham presiding.

Mr. LANHAM. The committee will come to order. We have met to consider a bill introduced by Mr. Kramer, chairman of this committee, H. R. 7620, which was introduced in the House on September 30, 1942.

An identical bill was introduced in the Senate by Senator Reynolds on September 21, 1942, and is Senate 2794.

We all regret very much that the illness of our chairman prevents his attendance. He has asked me to preside at the hearings in his absence and I am sure we are all very hopeful that he will soon be entirely restored to health and strength.

This bill was sent to the Speaker of the House of Representatives with an accompanying letter from the Secretary of War. The bill will be included in the hearings at this point, as well as the letter from the Secretary of War.

(H. R. 7620 is as follows:)

[H. R. 7620, 77th Cong., 2d sess.]

A BILL To provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever an invention described in and covered by a patent, or an application for patent, of the United States shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of

contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective two days after the mailing thereof.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention described in and covered by a patent or an application for a patent, whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid by the Government for such manufacture, use, sale, or other disposition of such invention, or by way of refund to the Government if already paid by it to the licensee.

SEC. 5. The authority and discretion conferred by this Act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

SEC. 6. For the purposes of this Act and the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the manufacture, use, sale, or other disposition of an invention described in and covered by a United States patent or in an application for patent therefor, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or disposition for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or materials deliverable to the Government from and after the date of the approval hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination hereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of a patent or patent application covering an invention manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

Mr. LANHAM. The letter bears date September 21, 1942, and is signed by Henry L. Stimson, Secretary of War. I will read the letter. [Reading:]

WAR DEPARTMENT,
Washington, September 21, 1942.

THE SPEAKER, HOUSE OF REPRESENTATIVES.

DEAR MR. SPEAKER: There is inclosed a draft of a bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, which the War Department recommends be enacted into law.

The purposes of the proposed legislation are:

(1) To require approval and establishment by the head of the Government department concerned of the rates of royalties under patent licenses payable by manufacturers of articles manufactured, used, sold, or otherwise disposed of for the Government.

(2) To prevent payment of excessive royalties under patent licenses by manufacturers to patent owners on articles manufactured, used, sold or otherwise disposed of for the Government.

(3) To prescribe the legal remedy of patent licensors with respect to disputed royalties and establish the procedure for recovery thereof.

(4) To clarify existing legislation, namely, the act of June 25, 1910 (36 Stat. 851), as amended with respect to contractors and subcontractors manufacturing, using, selling, or otherwise disposing of inventions for Government use.

(5) To authorize the head of the Government department concerned to compromise and settle claims for the manufacture, use, sale, or other disposition by or for the Government of patented articles.

The act of June 25, 1910 (36 Stat. 851), as amended by the act of July 1, 1918 (40 Stat. 705), provides as follows:

"That whenever an invention described in and covered by a patent of the United States shall hereafter be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture: *Provided, however*, That said Court of Claims shall not entertain a suit or award compensation under the provisions of this Act where the claim for compensation is based on the use or manufacture by or for the United States of any article heretofore owned, leased, used by, or in the possession of the United States: *Provided further*, That in any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in Title Sixty of the Revised Statutes, or otherwise; *And provided further*, That the benefits of this Act shall not inure to any patentee who, when he makes such claim, is in the employment or service of the Government of the United States, or the assignee of any such patentee; nor shall this Act apply to any device discovered or invented by such employee during the time of his employment or service.

In a number of instances, manufacturers with whom contracts for the production of articles and materials for the War Department have been placed were found to be manufacturing under licensing agreements entered into during peacetime with the owners of patents covering the desired articles or materials, binding such manufacturers to pay specified royalties. Under peacetime conditions and for the quantities then being produced, the royalty payments were fair and reasonable, but when applied to the enormous quantities needed for the prosecution of the war such royalty rates are regarded in some cases as exorbitant, excessive, and unfair.

While the situation has been somewhat relieved in a number of instances by negotiations between representatives of the War Department and the owners of patents, this method has not been entirely successful, because patent owners are legally entitled to require observance of existing contract obligations, particularly where license agreements have been in effect for some time, and some patent owners are insisting upon payment of the high royalties specified in their license agreements.

There also is some doubt as to whether the provisions of the act of June 25, 1910 as amended, are sufficiently broad to cover manufacturers or users operating under license agreements and their subcontractors and sublicensees, and to afford protection against infringement suits in the event of the manufacture, use,

sale, or other disposition under such conditions of patented articles on orders and under contracts with the Government. To eliminate uncertainty and properly and fully to protect such manufacturers and users, including subcontractors and sublicensees, the proposed legislation is deemed necessary and desirable.

It is likewise deemed necessary to make the legal remedy against the Government exclusive, thus eliminating constant danger of litigation and controversy over royalty payments between patent owners and those producing, using, selling, or otherwise dealing with patented articles for or on behalf of the Government. There is necessity also for authority to enter into agreements with owners or licensees of inventions in full settlement and compromise adjustment of their claims arising from the production, use, sale, or other disposition of patented articles on behalf of the Government, thus obviating the necessity of suits in the Court of Claims against the Government. The draft of bill provides for such adjustments.

The proposed legislation is designed to meet the existing situation and to aid in expediting production for the prosecution of the war.

The War Department is unable to estimate the fiscal effect of enactment of the proposed legislation. However, it is believed that a very considerable saving in procurement cost to the Government will result from enactment of the bill.

Accordingly, early enactment of the draft of bill enclosed is earnestly recommended by the War Department.

The Bureau of the Budget advises that there is no objection to the submission of this proposed legislation for the consideration of the Congress.

Respectfully,

HENRY L. STIMSON,
Secretary of War.

That letter was dated September 21.

On that very day Mr. Reynolds introduced the bill in the Senate and Mr. Kramer on September 30 introduced the bill in the House.

From statements that I have heard from many who are interested in this bill, it seems that there is general accord with the principal purposes of the bill, though I think exception has been taken to some of its provisions.

The study of the bill that I have been able to give in the very limited time at my disposal has convinced me of the wisdom of the purpose of it, and has also convinced me that there are a few incidental respects in which it might need amendment.

There have been some very interesting articles recently in the Atlantic Monthly. A month or two ago there were two articles, one by Mr. Thurman Arnold, and one by Mr. Lawrence Langner. Each of those distinguished gentlemen has appeared before this committee.

There is an article by another gentleman in the current number of the Atlantic Monthly which you might call more or less an arbiter between the conflicting views of Mr. Arnold and Mr. Langner and I notice in his article he makes the statement which has been iterated and reiterated before this committee many times, that insofar as authority to use any patent is concerned, and especially in time of war, that under the act of 1918 the Government already has that power.

The purpose of this legislation, if I understand it, is merely in accordance with that authority under the act of 1918, to make some proper arrangements with reference to royalties, in keeping with the war conditions which exist.

Now, is that, gentlemen, a proper preliminary statement of the purpose of this legislation? I think that we might get that definitely before us in the beginning.

Colonel VANDERWERKER. I think so.

Colonel PATTERSON. I think so.

Mr. LANHAM. Inasmuch as this proposed measure was sent to us through the Secretary of War by the War Department, it seems appropriate first to hear from the representatives of the War Department and we are pleased to have with us again on this occasion Col. Francis H. Vanderwerker, who is the Chief of the Patent Division of the Office of the Judge Advocate General of the War Department, who has appeared before this committee on several occasions. We will be glad to hear you, Colonel.

Colonel VANDERWERKER. Mr. Chairman, Colonel Patterson is prepared to present the War Department's views with reference to the bill.

Mr. LANHAM. Then we will be glad to hear Colonel Patterson at this time.

STATEMENT OF COL. EARL S. PATTERSON, WAR DEPARTMENT

Colonel PATTERSON. Mr. Chairman.

Mr. LANHAM. Will you give the reporter your full name, Colonel?

Colonel PATTERSON. My name is Earl S. Patterson, and I have been designated by the War Department to testify in connection with the bill H. R. 7620.

This bill was prepared by the War Department in collaboration with the Navy Department and the Department of Justice. It has been approved as to Presidential policy by the Bureau of the Budget after reference to other interested agencies of the Government.

Since the introduction of the bill, the War Department has determined that it would be desirable to make certain changes in its language. I am therefore authorized to request the committee, with the approval of the Bureau of the Budget, to amend the bill in the following manner.

I have a number of copies of the bill showing the suggested changes.

Mr. LANHAM. We will be glad to have those, and if you have additional copies that you can leave here with the clerk, and others who wish to see them, we would appreciate it. We would also like to have a copy to go into the record.

(The bill showing the above proposed amendments is as follows:)

[H. R. 7620, 77th Cong. 2d Sess.]

A BILL To provide for adjusting royalties for the use of inventions for the benefit of the United States and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever an invention ~~described in and covered by a patent, or an application for patent, of the United States,~~ *whether patented or unpatented*, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that

specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed, to the last known address of the licensor and licensee and shall be effective two days after the mailing thereof.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise.

SEC. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, ~~described in and covered by a patent or an application for a patent,~~ *whether patented or unpatented, and* whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

SEC. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid ~~by the Government~~ *directly or indirectly* for such manufacture, use, sale, or other disposition of such invention, or by way of refund ~~to the Government~~ if already paid ~~by it~~ to the licensee.

SEC. 5. The authority and discretion conferred by this Act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

~~SEC. 6. For the purposes of this Act and the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the manufacture, use, sale, or other disposition of an invention described in and covered by a United States patent or in an application for patent thereof by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or disposition for the United States.~~

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this Act. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act.

~~SEC. 7. This Act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or material~~

~~deliverable to the Government from and after the date of the approval hereof.~~ Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination ~~hereof~~ *thereof*, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

SEC. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10 (1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of ~~a patent or patent application covering~~ an invention, *whether patented or unpatented*, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

SEC. 9. If any provision of this Act or the application of any provision to any person or circumstances shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

Colonel PATTERSON. It is suggested that the bill as introduced be amended in the following respects:

In section 1, lines 3 and 4, page 1, strike out the words "described in and covered by a patent; or an application for patent, of the United States," and insert in lieu thereof the words ", whether patented or unpatented,".

Mr. LANHAM. I wonder, Colonel Patterson, if that does not have reference more or less to legislation that emanated from this committee with reference to keeping secret inventions for which applications for patents have been presented in the Patent Office that do not issue, and those, of course, would not be patented, and it is proposed to use that for a foundation for the suggested amendments.

Colonel PATTERSON. That is, I might say, one basis, sir, for the suggested change. Another is that the wording as now suggested would permit action in regard to an unlicensed, untested invention or one for which no application has been filed. In other words, a secret process would be included as well as an invention on which there had been an application filed.

I might say in that regard that we have had brought to our attention contracts in which royalties were payable by contractors and such contracts included royalty for the use of a patent as such, for other processes, which had been invented subsequent to the issuance of the patent, but in which and upon which no patent had been issued or no application had been filed and, thirdly, for engineering services in connection with both the patented article and the processes invented subsequent to its issuance.

Mr. LANHAM. Well, if there had been such secret processes unpatented, our laws are such that they could have been patented had the inventor so desired. Is that correct?

Colonel PATTERSON. Well, at least an application could have been filed upon them, sir, but in the before-mentioned instances none has been filed. Nevertheless a royalty is being paid upon the use of the processes.

Does that answer your query?

Mr. LANHAM. It does; yes, sir.

Colonel PATTERSON. In section 3, lines 16 and 17, strike out the words "described in and covered by a patent or an application for a patent," and insert in lieu thereof the words ", whether patented or unpatented, and".

That follows the same language which changes the bill to conform throughout.

In section 8, line 22, page 5——

Mr. LANHAM. You have a change in section 4 first. You will notice "directly or indirectly." And, you have changes in section 6.

Colonel PATTERSON. Apparently my notes do not follow the context of the bill by paragraphs.

In section 4, page 4, line 9.

I have that covered, sir, in a different paragraph. If I may continue, I am following through with the changes with regard to striking the words "patented or unpatented."

I will touch upon that later if I may.

Mr. LANHAM. Yes.

Colonel PATTERSON. In section 8, line 22, page 5, strike out the words "a patent or patent application covering" and in the same section, line 23, before "manufactured" insert the words ", whether patented or unpatented,".

Then referring back to section 4, in section 4, line 9, page 4, strike out the words "by the Government" and insert in lieu thereof the words "directly or indirectly".

Mr. LANHAM. While you are on that amendment, having explained the reasons for the inclusion of the words "whether patented or unpatented" in the other section, will you kindly state at this point the reasons for the insertion of "directly or indirectly" in section 4?

Colonel PATTERSON. Yes, sir. I would suggest, if I may, to continue with the changes in that paragraph, before I make that explanation, because there are two more places in which it is changed.

Mr. LANHAM. Yes.

Colonel PATTERSON. In line 11, page 4, strike out the words "to the Government" and "by it".

The purpose of the proposed amendments is to broaden the scope of section 4 to cover reductions in royalty rates for supplies, equipment, or materials produced or delivered for the United States by subcontractors or subordinate contractors, or which form a part of completed articles for which the United States pays or is chargeable as a part of the cost under prime contracts. While it was intended that section 4 would embrace any reduction in royalties accomplished by way of departmental order or compromise agreement, whether under a prime or subcontract, a strict construction of the language employed might result in denial of the right of the Government to claim the benefit of savings in cases other than those in which the prime contractor is the licensee, and the holding that the legislation is not applicable where the subcontractor is licensed to furnish the product or a component part thereof under a license agreement with the owner of the invention. It is believed the proposed amendments will eliminate doubt as to the scope of section 4 and make it sufficiently broad to enable the Government to obtain the benefit of any reduction accomplished.

Passing on to the next amendment, if you have no further questions, sir, in section 6 it is suggested that the entire paragraph be stricken and that in lieu thereof the following paragraph be inserted.

SEC. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization and consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

I might state that the purpose of the proposed amendment is to remove any argument that this bill makes any change in the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), other than that the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

It is further suggested that the first sentence of section 7 be stricken, and that there be substituted therefor the following:

SEC. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this Act and to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this Act.

In explanation of that, may I say, sir, that the last sentence that I have just read is an addition to the provisions of the act, or the bill as originally drawn, and covers the situation which will exist if this bill is enacted, and at the time of its enactment, for goods already delivered upon which royalties have not been paid. We know of cases which we think can properly be reached by this bill in which royalties are being withheld by the Government or upon the order of the Government, which are excessive, although the goods have already been delivered or will be delivered at the time of the passage of this bill.

Mr. LANHAM. Is that in effect a renegotiation of the contract entered into by the Government since the war began?

Colonel PATTERSON. No, sir; it is not. It will cover those cases, however, such as one that I have in mind particularly which I will give you, as an illustration, in which the Government has told the contractor to go ahead and manufacture and that the Government will save him harmless as to the royalty which he would pay under an existing contract.

That particular contract was entered into this year. There have been deliveries under it. The royalty has not been paid and will not be paid in any event, whether this bill passes or not, until after a suit against the contractor by the patentee. The Government liability in that particular case will no doubt exceed a quarter of a million dollars. We feel that the amount of royalty is excessive.

It is cases of that sort that we seek to reach by this amendment.

Mr. LANHAM. And otherwise would have to be disposed of under the existing law?

Colonel PATTERSON: Yes, sir; the contractor would be subject to suit, and no doubt would recover under his contract the full amount of royalties specified, and we in turn under our indemnity agreement would have to pay that amount.

Mr. HOLLAND. In other words, if the bill is not passed the royalties would be wiped out?

Colonel PATTERSON. Well, the royalties would not be fully paid. If the bill is passed, they would be fixed under the act, and we would go back and adjust such royalties.

Mr. LANHAM. You have another amendment in section 7 which is primarily typographical, is it not?

Colonel PATTERSON. That is true.

Mr. LANHAM: I think that you had better indicate those.

Colonel PATTERSON. Correct a typographical error in section 7, line 11, page 5, change "hereof" to read "thereof."

Then, at the end of the bill, it is proposed to add a new section reading as follows, known as section 9:

SEC. 9. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

Mr. LANHAM. May I bring to your attention, Colonel, and get your judgment, with reference to a few amendments that appeal to me as being somewhat pertinent and which are not covered by those you have recommended.

Colonel PATTERSON. I will be very happy to listen to them. You, of course, appreciate that Colonel Vanderwerker is Chief Counsel of the Patent Division. So I will make a good listener and let Colonel Vanderwerker answer the questions.

Mr. LANHAM. We appreciate that and are glad to have each of you with us.

We who serve on this committee, of course, are interested in two things primarily: In the first place we are very anxious to do everything we can and should properly do to expedite the prosecution of the war.

In the second place we are naturally very solicitous about our patent system, which has been in existence since the beginning of the country, and which is predicated upon a provision of the Constitution that the founding fathers placed in our organic law.

We are anxious in doing what we properly may and should, to promote the prosecution of the war, and not to destroy or impair the operations of our patent system when the war is over. We do not contend that it does not need amendment. It probably needs considerable amendment.

We recognize also that certain things are necessary in times of war as emergency legislation to implement our patent system in its operations, as it affects the war.

Now, in such little time as I have had to give to the study of this bill in the multiplicity of duties that come before us here, I have noticed one or two things in particular which I think require some explanation.

In the first section of the bill, beginning, we will say, in line 9, on page 1, we have this language:

amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall deem are fair and just.

Now, we have a great many agencies in the Government. Some of them are temporary agencies devoting their work to the war effort.

It seems to me that primarily, matters of this character should be determined not by just any agency, but by the responsible heads of departments like the War Department and the Navy Department; perhaps by the Maritime Commission and the Commissioner of Patents.

We have a further provision that carries this idea even further in section 5:

SEC. 5. The authority and discretion conferred by this Act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

That, of course, could finally get this authority down to the colored messenger of an agency.

Now, in my cursory reading of this bill it just seems to me that that is broadening a little too much the ramifications of the authority over our patent system and endangering it, because not only the head of any agency—and there we have them almost without number—can settle these matters; but the head of that agency may delegate that authority to someone else in his agency and they may be delegated on down, and it seems to me these things should be determined by responsible authorities at the top who have to do with the conduct of this war and not sift them on down to the bottom.

Mr. SCOTT. Mr. Chairman, will you excuse me for interrupting?

Mr. LANHAM. Yes, Mr. Scott.

Mr. SCOTT. May I comment right there on one point?

Mr. LANHAM. Yes, Mr. Scott.

Mr. SCOTT. In section 3 I notice that the head of any department or any agency has authority to enter into compromises and settlements and then under the power in section 5 that can be delegated all of the way down.

Mr. LANHAM. That is correct.

Mr. SCOTT. After the war we are going to have a deluge of post-war claims.

Mr. LANHAM. That is correct.

Mr. SCOTT. And under this act anybody, as you have said, down to the least important employee could settle post-war claims.

Mr. LANHAM. That is correct, and I should like to carry that thought still further.

Over here in section 8 it says the head of each department or agency of the Government may issue such rules and regulations, and require such information as may be necessary and proper to carry out the provisions of this act.

Well, we might have so many rules and regulations issued by a lot of subordinates that we would just have a tangled mess of this whole situation.

I think with the purposes of this act every one is in accord. There is quite a difference, of course, and, of course, manufacturers and those who own patents realize that in the great expansion of their work due to the enormity of our war effort, there must be some modification of the royalty rates. That purpose is fine; but to subject our patent system to a lot of subordinates and let them make all kinds of rules and regulations, just seems to me a dangerous policy.

Now, with that statement, I want to ask this question, predicating this question upon that statement: Why could not this purpose be carried out if we gave this authority to the responsible heads that are charged with carrying on the war effort—the Secretary of War, the Secretary of the Navy, the head of the Maritime Commission, and the Commissioner of Patents; and without all of these ramifications here that a Philadelphia lawyer could not keep track of.

Mr. SCOTT. It would take all 4,000 of them to keep track of it.

Mr. LANHAM. Could we not have some contraction of authority in one place that would make for uniformity of operation and uniformity of rules and regulations, that would be understood by these manufacturers? I think it is very important for these things to be clearly understood by them, because I think that we are likely to thwart and diminish and hamper our production unless it is so clarified that they will know at all times just what they are doing.

Colonel PATTERSON. I can reply, sir, only so far as the War Department is concerned.

I think it can be said that the reason for the insertion of these provisions in this bill is because it was thought necessary under the law that there be a delegation of authority to subordinate officers.

Now, as a matter of practice, as you know, the Secretary of War or the Under Secretary of War, or even the commanding general of the Matériel Division does not negotiate and does not sign contracts except in particular instances. At the present time, for instance, unless it is an unusual case, no contract in an amount of less than $5,000,000 goes to the Under Secretary of War for signature. And, for instance, in the Air Forces, if it involves less than a million dollars, it will not go to General Echols who is in command of the Matériel Section of the air forces. All contracts of lesser amounts are given to the contracting officer for negotiation and signature.

Now, those contracting officers are very carefully selected. They are men who in most instances have been contracting officers for years, and they have an experience which enables them to make contracts, in our opinion, which are proper.

It was thought, however, in connection with this bill, so far as the Army was concerned, that this authority would perhaps be necessarily delegated down to such contracting officers.

Mr. LANHAM. I appreciate what you have said and perhaps I should amplify my original statement.

I did not mean by my statement that no one else would have anything else whatever to do with the establishment of these rates and the rules and regulations, and so forth, but that we should have responsible heads such as those I have indicated, and that they, of

course, would necessarily have in their organizations those who would help them in arriving at the proper conclusions.

Colonel PATTERSON. The difficulty, if I may interrupt you sir, in that connection, is this, that unless there is a specific delegation of authority in this bill, it has been held by those who tell us what the law is, that the subordinate cannot handle a particular contract or do the particular thing, and if this bill were to be amended as you suggest, sir, limiting that power to the head of the Government or to the department, as such, without any power of delegation, each act that was performed under this bill would have to be done by Mr. Stimson himself as Secretary of War.

Mr. LANHAM. How about a provision reading "by them or under their direction," or something of that kind, so that we will have some responsibility; because section 5 just takes this authority down to the most minor employee.

Mr. SCOTT. It would make it impossible, would it not, to fix responsibility for mistakes or overpayments after the war; that is, the provision in section 5.

Mr. LANHAM. Well, it so occurs to me.

I understand that the ones I have indicated would not be doing all of the work, of course; but I think whatever is done should be done under their direction in such a way that when this is over and we have the problems that will arise—we know will arise—they arose after the last war, and this war is of greater magnitude—that we should have some responsible heads. Of course, they will have to give directions to those who carry on various features of it.

Mr. HOLLAND. Who signs those contracts, Colonel? You are speaking about the different-sized contracts. Who signs them; does the Secretary of War sign every one of those?

Colonel PATTERSON. No, sir.

Mr. HOLLAND. Could you make this bill so read that the man who signs the contract would be responsible?

Colonel PATTERSON. That might be satisfactory in some instances, or most instances, so far as the War Department is concerned; but it might not be satisfactory so far as some other department or agency of the Government is concerned.

Now, I might say this to you further that I do not have the same feeling about the legal effect of the bill as suggested by the Congressman. I think that there is still a responsibility in the head of the department or agency, to see that this act is carried out properly, and if it is not, then he is still responsible, although he may delegate that authority.

Mr. SCOTT. Perhaps my trouble is that I am a Philadelphia lawyer. Would it not accomplish what you seek to accomplish here if we provided for fixing responsibility in the Cabinet officer and provided that such Cabinet officer may delegate certain limited or normal authority to such heads of divisions or departments as he may set up for that purpose.

Mr. LANHAM. That is along what I have in mind.

Mr. HOLLAND. We are going to get into an awful bottleneck though.

Mr. LANHAM. Something of that sort was in my mind. Then if in these agencies and departments that I have suggested there will be conflicts, they could determine the method of carrying out the act and

then we would at least have some centralized responsibility it would certainly be most helpful to the Congress in settling these post-war disputes.

Mr. HOLLAND. If you are going to put it all in one man's lap, you are going to have a bottleneck, and you will not get anything done.

Mr. LANHAM. That is not my thought.

Mr. HOLLAND. Thank God, I am not a lawyer. I am a manufacturer.

Mr. LANHAM. It is not my thought to put it all in one man's lap, but I think if a manufacturer has one set of rules and regulations from one agency and another set of rules and regulations from another agency, and any one under section 5 can be the one with whom he deals, he might deal tomorrow with a very different man from the man he was dealing with today, that we would have a state of confusion that would hinder our war production.

Now, I do not know just how this act should be amended in that regard; but in my judgment, from such study as I have been able to give it, there certainly ought to be some clarifying amendment that will fix the responsibility and that will alleviate the trouble that we will have legislatively in the post-war period in settling these various claims, and also in keeping our patent system unimpaired by what may be done for the duration of this war, in efforts to be helpful in carrying it on.

Now, I do not know. I just suggest that here at the beginning of these hearings, in order that some thought may be given to it that it may be worked out in a proper way.

We are all, I think, in accord with the purposes of this bill; but there are some of these incidental features which I think should be given consideration to make this bill more operative when it is enacted, to reduce the trouble we will have with claims after the war and to preserve our patent system for the post-war period.

Now, I think some consideration should be given to those matters during the course of this hearing and I am just mentioning it now at the outset as a thought that occurred to me in perusing this bill, and if I am wrong, why, I am willing to be corrected. If the idea is right, why, we are all of one accord in wanting to do what should be done, so let us see if we cannot in a multitude of counsel find some way of getting that properly stated.

Mr. HOLLAND. I think, Mr. Chairman, this may sound worse than it really is. It does not mean really to go down so far as indicated in the delegation of powers. I do not think in any of the departments that they are going to delegate the powers too far down the ladder. My experience with men in political life is that they do not try to delegate too much power down the ladder, and I think the War Department will act in the same way.

Mr. LANHAM. I want to say in that connection that I think that we who serve in the Congress of the United States have a very definite responsibility. Criticism of the Congress seems to me a more or less popular indoor sport in view of the fact, exclusive of the Army and the Navy, we now have approximately 2,000,000 of our people on the Federal pay roll—is not that about an accurate statement—and the people select 531 by their ballots out of 2,000,000 those who serve in the two bodies of Congress, and inasmuch as what is done by the re-

mainder of the 2,000,000 sometimes comes back to the Congress by way of criticism—a little group of 531—I think it behooves us for ourselves as representatives of the people to try and obviate just as many of these difficulties and subsequent criticisms as might arise.

Mr. SCOTT. Mr. Chairman, if this is still a government of laws and not of men, does it not behoove us to get the law in as good shape as we can and leave to the War and Navy Departments and the Commissioner of Patents the selection of the right men to whom to delegate the power?

Mr. LANHAM. That was my thought about it.

Colonel PATTERSON. Might I make this observation, sir: There is in existence today laws providing for the delegation of power to subordinate officers of the War Department. They exercise it. Without such subordination of effort, we could not accomplish what have have to to accomplish.

Now certainly if contracting officers have authority to make a contract for $10,000,000 or $50,000,000 or $100,000,000, subject to approval in certain cases by the Under Secretary of War, they would be competent to settle a royalty claim involving maybe one one-hundredth of the total contract price, which would be the percentage of the amount involved in such cases as I envision under this bill. It certainly was not contemplated in the preparation of the bill that any provision as to delegation of authority would relieve the head of the department of any responsibility in connection with such a delegation. Never was it intended that the delegation practice, as such, which has been in vogue in the War Department would be in any way changed by the provisions of this bill. In other words, I assume that I am correct in saying that the delegation will never go down below that to the contracting officer who makes the original contract, and it will be in responsible hands, and the Secretary of War will be responsible to the Congress and to the people for acts under the bill.

Mr. LANHAM. Well, now, Colonel Patterson, have you not made a good suggestion there. We have a law with reference to that. During the hearings could you not bring the pertinent parts of that law up here and could we not, in accordance with that law, make some modification here or some proper reference to it with reference to the carrying out of the authority that would be contained in this act?

Mr. SCOTT. It would be covered, Colonel, by the contracting officer.

Colonel PATTERSON. I would not think it would be safe to do that, sir. The Secretary might desire to act as in the case of claims against the Government today. The Secretary of War, or the Under Secretary of War, has just set up a board of three officers to settle those claims. They are high ranking officers. They are capable officers and it might be that if there are a great number of claims which arise out of this act, that he might want to delegate the authority to compromise to that board. I feel that you must trust implicitly, or at least if not implicitly, generally, the heads of your departments and as long as they are given the authority in the bill they are responsible for the delegation of such authority and for the acts of their subordinates in carrying out the provisions of the bill.

Mr. LANHAM. But this refers to any agency also, Colonel, and I doubt if you or I know just how many of these agencies there are

Mr. SCOTT. We would expect that you would have to delegate most of the details, but in this bill you delegate the final decision as well, and that is what I think we want tightened up. Is that not true, Mr. Lanham?

Mr. LANHAM. I feel that way.

Mr. SCOTT. I think that is what we want.

Mr. LANHAM. Of course, I do not intend by my suggestion that all of this work should be done by the Secretary of War, and so forth, but I do think that we should have men in responsible positions under whose direction it will be done, so that there may be some uniformity with reference to the provisions that manufacturers and the Government and everybody else will understand, and I think we will speed up our production in such a way.

Mr. HOLLAND. We could not have uniformity, because it would all depend on the size of the contracts.

Mr. LANHAM. I do not mean uniformity with reference to the size of the contracts. I mean uniformity with reference to the principles and policies, and rules and regulations, as to what manufacturers may or may not do; as to what they may or may not expect and that they may not be dealing with one officer today and another officer tomorrow, and so on, ad infinitum.

I think the suggestion is intended to be helpful, in speeding the purposes of the act, and in avoiding confusion and too much diffusion of directive authority; but to just turn this power over to all these various agencies, any agency can make its rules and regulations, and it is likely to result in confusion that will hamper our efforts.

We are all, I think, assuming from everything I have heard, in accord insofar as the purposes of this act are concerned.

Colonel PATTERSON. I can assure you, sir, that we will be glad to consider your suggestions, and confer with you further with regard to it.

Mr. LANHAM. Well, that is, confer with the committee, because I happen to be only one of them and I am not the chairman.

Mr. SCOTT. As I see it, all we are driving at is trying to find some way to channel it, avoiding what Congressman Holland has referred to as a bottleneck, but we want to avoid a sieve, on the other hand, if we can get the responsibility where you can put your fingers on it, and provide for a delegation of all of these details.

Mr. LANHAM. And provide certainty of procedure on the part of these people who have patent rights.

Mr. SCOTT. Surely. I think that we are all agreed with the purposes of this bill, and that it is desirable, but we want to properly accomplish them.

Mr. LANHAM. Do you have any further statement?

Colonel PATTERSON. Yes. I did not want to interrupt you, sir.

Mr. LANHAM. I beg your pardon. I thought that you had concluded your statement.

Colonel PATTERSON. No. In fact, I have just begun.

Before addressing myself to the particular problems which have been encountered in the War Department procurement I will direct my comment to the present status of the law relating to inventions manufactured, used, made, or sold by or for the Government.

The act of June 25, 1910, as amended July 1, 1918 (35 U. S. C. A. 68), provides as follows:

> Whenever an invention described in and covered by a patent of the United States shall be used or manufactured by or for United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

By virtue of this statute the owner of a patent may sue the United States to recover reasonable compensation whenever his invention is used without consent in connection with war procurement. Because of this law, it has been the policy of the procuring agencies of the War Department to use unhesitatingly any patent which it deems essential in its procurement program. In some instances agreements for payment of royalty are made in advance of such use. In other cases, payments by way of settlement are made after the use either when such use may have been with knowledge of the patent or through an unwitting infringement. Thus it is seen that as to all cases in which no license agreement between the patent holder and Government manufacturer exists, the United States uses any and all patents, as such, by the simple expedient of expropriation or infringement.

The Government also protects the patent holder in those cases where a patent application is held in secrecy by giving him a right of action for the use of the invention by the Government (Public Law 700, 76th Cong.).

In recent months it has come to the notice of the War Department that procurement costs of material in certain instances have been exorbitant and by reason of royalty under an already-existing patent license. The principal motive of the bill before you is to remedy such situations.

You may ask why the remedy does not lie in the 1910 act as amended. The answer is that our courts have held that such law does not apply where an invention is furnished for use of the United States by the licensee under a patent and is no defense to a suit by the owner of the patent against the licensee for royalties.

Such is the holding of the United States Circuit Court of Appeals, Fourth Circuit, in the case of *Newport News Shipbuilding and Dry Dock Company* v. *Asherwood* (5 Fed. Repts., 2d, 924). In such case application for certiorari to the Supreme Court was taken and dismissed.

In other words, if the air forces enter into a contract with Curtiss-Wright for an airplane engine, some part of which involves an invention licensed to Curtiss-Wright by the inventor, the air forces must, as a practical matter, pay as a part of the contract price such patent royalty payable by Curtiss-Wright under its license agreement.

You will, I am sure, be interested in certain of our experiences which illustrate the cost of patents in war procurement and our need for this legislation.

A certain company whom I will describe as "A" corporation, owns or controls through a subsidiary patents upon matériel which it manufactures. It has licensed the use of its patent to a second corporation upon a royalty basis of 6 percent on scheduled sale price of

matériel. This schedule price is today approximately 100 percent greater than the cost of manufacturing the matériel. Under this license the royalty is, therefore, actually 12 percent, based upon cost of manufacturing for the Government. In a recent call for bids on a particular order, the "A" corporation, the holder of the patent, submitted a bid, as follows:

	B-1	C-1	E-1	F. A.
A company	$42.53	$62.73	$52.32	$53.55
B company	23.14	25.39	29.21	27.35

The bid of B company of the above-quoted price was made conditional upon said B company being indemnified by the Government against all patent liability in connection with the payment of patent royalties, under the above-mentioned license agreement between itself and the A company or its subsidiary. The total contract price of the B company for the particular order upon which bids were requested was the sum of $3,160,762.06. It is readily apparent from a computation of the before-mentioned individual items that had the contract been let to the A company, the contract price for the same material would have been upwards of $6,000,000.

The Air Force, in order to obtain the material at the lower price quoted by the B company, entered into a contract for the production thereof, in which they agreed to hold the B company harmless against liability by reason of said patent royalties with A company. I am not exactly informed as to the royalty agreement under which the B company is liable to the A company by reason of this one contract, but from information given the Air Force by one of the officials of the B company, it is believed to be an amount approximately $227,000.

If this bill is made law, a very substantial part of the said $227,000 will be saved to the Government.

That royalty has not been paid and will not be paid until the end of a lawsuit, and if this law becomes effective prior to the time of its payment, of course, it could be adjusted.

Another illustration of the amount of royalty paid to an individual in connection with a single patent arises in connection with the production of a single item of airplane construction. It now appears that under existing royalty contracts between a certain inventor and aircraft companies manufacturing for the Government, that such inventor will receive on existing contracts approximately $1,750,000. This matter is now under investigation by the proper authorities in the Air Forces with a view to reducing the amount of said royalties. The patent holder is said to be willing to negotiate for a reduction in royalty. As yet, these royalties have not accrued because production is only now commencing under the invention.

However, unless there is an adjustment made by the inventor voluntarily the Government will be liable for the payment of the $1,750,000. This is another instance in which this bill would be effective.

A third case involves a patent owned by a German national, licensed to an American citizen who has in turn licensed to a steel company. The royalty cost on a single item consisting of a small recoil spring will, under existing Air Force contracts exact a payment from the

Government of $60,000. In this case the Air Force is advising the contractor not to pay the royalty and is agreeing to hold such contractor harmless. If this bill becomes a law the greater part of the $60,000 will be saved to the Government. Unless this bill becomes law, none of the $60,000 can be saved to the Government.

Another illustration is the case of the A company, which controls through its patents a rolling mill for the production of steel plate. The patents have been extensively litigated by the steel industry and thus far they have been held valid. The A company has been executing a number of license agreements with various steel companies requiring the payment of a royalty amounting to about 5 percent of the cost of manufacture of steel plate made on Stackel mills. The B company and C company are among the licensees and have contracted with the Ordnance Department for the supply of steel plate for use in the making of steel cartridge cases. Their contract costs will include royalties which they will be obliged to pay. While the payment of some royalty to the A company is undoubtedly justified, it is thought that 5 percent is very excessive, particularly in view of the fact that this figure is out of proportion when applied to the greatly increased production brought about by the war. The total amount of royalty will run into millions of dollars. Moreover, insofar as we are at present informed, the use of the patented mill for the production of Ordnance requirements is not inherently necessary, but has been resorted to for the reason that the urgency of the situation required the use of every available source of supply. The ordnance plate could be manufactured on other types of noninfringing mills, but all mills of the noninfringing type are already loaded to capacity.

It should be appreciated that the Ordnance Department is more or less powerless in the situation inasmuch as companies in the position of B will absolutely refuse to deal with the Ordnance Department unless it agrees to underwrite the royalties or to indemnify them, if they refuse to carry out their license agreements with A. An attempt has been made to induce the A company to waive its royalties on war production but that company has been adamant in its refusal. It points out that royalties of this nature are being paid throughout industry, and that it is not fair to request it to waive its royalties when others are not doing so. They contend that if this situation is to be corrected, it should be corrected by legislation, which would cover all patents.

To continue my discussion, the bill would permit the War Department to examine existing royalty agreements of Government contractors and subcontractors and whenever it appeared that the amount of royalty was too great, such Department could give notice to the licensee not to pay any further royalty until further order. An examination of the problem would be made and a conclusion reached as to the amount of royalty deemed fair and equitable under the particular circumstances. The licensee would then be advised to pay such amount as the procurement authority found to be fair and just and no more. Such an order would apply to royalty unpaid at the time of the original notice whether or not a delivery of the article embodying the invention has taken place.

The determination of the procurement authority would only be effective as to the particular Government contract under consideration.

If at a later time the quantity of procurement under a different contract should dictate a different royalty, the same procedure will be followed. In the event no such action is taken upon any procurement, the royalty will, of course, be paid in pursuance of the license agreement.

The bill would also have the effect of preventing the collection of royalty by the licensor from the licensee under the royalty contract in an amount greater than determined by the procurement agency, relegating the licensor to an action against the Government for such sum, if any, as he may be entitled to in addition to the sum paid as would constitute fair and just compensation.

The provisions of the bill can, therefore, be said to fulfill the requirements of the fifth amendment to the Constitution and its provisions are thought to be lawful.

The Government is protected in any suit against it, to the extent that it may avail itself of any and all defenses that might be raised in an action for infringement as permitted by existing law.

The bill further provides for the settlement by the procurement authority of claims arising under the act until, and unless, suit has been filed against the United States. Coupled with this right is the further right to contract concerning future royalties. It is believed important, in the interest of licensor, as well as in the interest of the Government, to authorize a settlement of royalty claims by the procurement authority. Suits will be avoided and money rightfully due will be paid without the delay incident to court action.

The bill also attempts to make certain the credit to, or the recoupment by, the Government of the reduction in royalty. The purpose of section 4 is to insure that a contractor or subcontractor, who by reason of an order reducing a royalty payment involved in his contract does not have to pay as much royalty as was contemplated by the parties at the time the procurement contract was entered into, will be compelled to give the Government the benefit of such reduction.

Section 7 of the bill has been prepared in contemplation of the procurement situation with relation to inventions which will exist at the time of the passage of the act.

We know that at such time deliveries will have been made of articles covered by inventions upon which no royalties have then been paid. The bill will be effective as to these royalties if nonpayment or partial payment is ordered before payment is actually made to the licensor.

Furthermore we know that at the time of the passage of the act there will be in existence obligations to pay royalties by reason of license contracts under which deliveries have not yet been made to the Government. The bill will be effective as to the royalty payable for matériel covered by a particular invention, delivery after the passage of the bill, which royalty is unpaid at the time an order reducing same is given pursuant to section 4 of the bill.

The bill is in its principal features, a war time measure. It is essential, however, that certain features of it be retained as permanent legislation. They speak for themselves without further explanation.

Another effect of the bill is to place the inventor, who has contracted for the use of his patent on a royalty basis, upon the same footing as the inventor whose invention is unlicensed, insofar as Government use of said inventions is concerned. Both will receive just compensation for the use of their invention by the Government.

The War Department is today fully cognizant of the fact that patent cost in war procurement is a vital problem.

Many license contracts provide for a percentage royalty which was predicated upon commercial or peacetime Army production. Their makers never visualized the situation which now exists. A 5- or even a 10-percent royalty on a small commercial volume, would, perhaps, have been fair and equitable, but the same percentage of royalty applied upon a hundred or a thousand times greater volume due to the war becomes excessive.

In conclusion it may be said that this legislation is needed by the Army in those infrequent cases in which it is not feasible or possible to obtain a voluntary reduction in royalty under an existing license, which royalty is excessive.

We still occasionally find men who selfishly look upon this war as an extraordinary opportunity for unjust enrichment.

We can now requisition or condemn every kind of species of property except patents.

The War Department does not believe that inventions or their resultant patents are entitled to any greater degree of sanctity than other property.

In our opinion, existing royalties can, in all fairness to the inventor or the patent holder, be reduced to effect a really huge saving in the War Department procurement.

This bill is, in the opinion of the War Department, the best method of meeting the Army's present needs. It covers cases which cannot be reached by requisitioning or other remedies.

Speed in the adoption of the legislation is very important, as each day results in the payment of royalties which can be reduced in amount and saved to the Government, were this law in effect.

Mr. LANHAM. May I ask you a question or two, Colonel?

Some of the other members of the committee would like to also. Generally speaking, you have found these manufacturers and patent owners willing to be cooperative, have you not, and not to predicate their rights of profit upon the commercial production in these times?

Colonel PATTERSON. I would say yes, in the very vast majority of cases, sir. It is only in the isolated cases that we have difficulty.

Mr. LANHAM. The War Department, I infer from what you have said, does recognize the owner of the patent as having a property right for the limited term that the law prescribes.

Colonel PATTERSON. Very definitely, sir.

Mr. LANHAM. Now, you made a reference to part of the legislation being permanent.

In section 7 there is this provision:

> Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination hereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

Now, just what does that mean with reference to the permanent effect of various provisions of this bill after the duration of the war?

Colonel PATTERSON. Well, the gravamen of the bill as such is contained in sections 1 and 2, sir, which by section 7 are the provisions to remain in force during the emergency.

The other sections of the bill are thought to be necessary as permanent legislation, and for that reason they were not included as numbered paragraphs to be affected by the automatic repealer. That is a matter which was given very careful consideration by the committee which prepared this bill, and I do not believe it will be found that in any of the other sections there is anything which should not properly be considered as permanent legislation.

Mr. LANHAM. Well, my question was merely to get an explanation of the provisions for the record.

Colonel PATTERSON. Yes, sir.

Mr. LANHAM. Are there any further questions?

Mr. HOLLAND. Mr. Chairman.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. In connection with those isolated cases you speak of, I have been told that that material was very essential to the prosecution of the war. Some of the trouble you have had so far has been on material that is very, very important to get; is that right?

Colonel PATTERSON. Well, sir, I cannot answer that with any degree of exactitude. I think anything that we need for war procurement is important. Some of it would be relatively more important than something else.

Mr. HOLLAND. A good bit of it is electrical, is it not?

Colonel PATTERSON. A great deal has been radio as distinguished from electrical equipment.

Mr. HOLLAND. I mean in that field.

Colonel PATTERSON. In that field; yes, sir.

I might comment to you in that regard that the radio license field today is very thoroughly covered by licensees to the Government from, I would say 95 percent of the holders of patents or licenses in radio. That is by reason of the campaign put on last year by the Army Signal Corps to obtain such licenses.

Mr. HOLLAND. How about the companies that have, like the large companies, which have the parent company, then the manufacturing company, and the distributor. In those cases would you work directly with the manufacturing company or would you have to go through the distributor?

Colonel PATTERSON. You mean, sir, if this bill were law?

Mr. HOLLAND. Yes, if the bill were law; would you go directly to the manufacturing company?

Colonel PATTERSON. Notice of nonpayment of royalty would go to the contractor and the licensor under the patent. A similar notice would go to the licensee who in most cases would be the contractor. In some cases he would not, as where there was a subcontract and the subcontractor happened to be a licensee. That, ordinarily, would effectively stop the payment of royalty to the licensor or the holder of the patent until such time as it could be determined by proper authority the amount which was thought fair for the royalty under that particular contract.

I think one of the greatest difficulties concerning royalties has arisen by reason of the tremendous increase in production volume. In the Signal Corps alone, the volume, I think over 1939 it has increased many, many fold—thousands of times—and what was a reasonable royalty at 6 percent for commercial use in radio turned out to be extremely excessive when applied to such tremendous war volume.

Mr. LANHAM. Have you concluded, Mr. Holland?

Mr. HOLLAND. Yes; thank you.

Mr. LANHAM. There is one further question I should like to ask here. In section 1, where there is reference to the—

rates or amounts which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered certain manufacture, use, sale, or other disposition, the head of the Department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just.

Now, that gives that right to fix and determine the royalty to any agency, as I understand it. Now, suppose that a manufacturer, a licensor, or those included within the enumeration, are perfectly patriotic and not desiring to make an unjust or undue profit, should feel that the order fixing the amount of royalty was not fair and just, what recourse by way of an appeal would a manufacturer or patent owner or licensee have under such circumstances?

Colonel PATTERSON. He should in that case ask his licensor to sue in the Court of Claims for the difference. He is entitled to take such action.

Mr. LANHAM. Under this act he would still have the right of appeal from any such order?

Colonel PATTERSON. If the licensor is not satisfied with the amount which the War Department should fix as the amount it felt to be a fair royalty, he could sue in the Court of Claims for fair and just compensation, in other words, an amount which when added to the amount already paid to him by the order of the War Department would constitute just compensation under the fifth amendment.

Mr. SCOTT. Mr. Chairman.

Mr. LANHAM. Mr. Scott.

Mr. SCOTT. You might also accomplish that perhaps by the appointment of a commission to determine it made up of delegates or representatives of the War, Navy, and Commerce Departments. Could it not be done in that way and avoid perhaps the burdening of the Court and the delay incident to the Court's procedure? Suppose you had a dissatisfied claimant.

Colonel PATTERSON. Personally, and unofficially, I do not agree with the theory that you should deprive a man of his day in court and make his exclusive remedy that of air action before a commission or agency of the Government.

Mr. SCOTT. I was thinking of arbitration with the ultimate right of appeal. That is what I was leading to; not depriving him of his day in court, but to facilitate the attainment of his rights by the action of some commission. Then if he is still dissatisfied, he has his remedy in court.

Colonel PATTERSON. I might make this further observation also, purely personally, as the result of some of my experiences. I think if the actual practice under this act should become at all burdensome to the War Department that any settlements incident to orders issued by the Department might be delegated by the Under Secretary of War to the board that he has already set up for the settlement of claims against the War Department.

I do not visualize, through my experience herein the last 2 years that there are going to be any great number of these cases. I thin'

they are going to be very, very few in number and that it is only in the isolated and infrequent case that we are going to have to use this act as a remedy.

As an illustration of that, take the Requisition Act, under which we have the right to requisition all kinds of personal property, except patents. For the first year of its operation after passage, I do not suppose we had 100 requisitions, and it is used extremely infrequently.

Mr. SCOTT. I had one other question which I may ask at this time. This appears to be a hybrid act in that certain parts of it are emergency provisions for wartime only, and others appear to be permanent.

What, in your opinion, Colonel, would be the objection providing that the whole act shall be limited to the period of the war and for 6 months thereafter, it being my thought that in so doing you would have the benefit of the experience obtained in administering the act and we might be far better qualified to provide for limiting the rights of citizens after the war, in peacetime, once we knew how the various provisions of this act were going to work.

Colonel PATTERSON. In answer to that, may I say, sir, that those who drafted the bill felt that there were certain incidental things which were in controversy and that we might once and for all cure them and that we would all be benefited if we had them out of the way. I mean that in connection with section 6, for instance. There has always been some question in the minds of patent lawyers as to whether the 1910 act as amended, applied to subcontractors, or whether it applied only to contractors, prime contractors with the Government. It was believed best to settle that controversy, and that question, once and for all, by putting in a provision, that insofar as this act is concerned, and insofar as the 1910 act as amended is concerned, they should apply to subcontractors as well as contractors of the Government.

Mr. LANHAM. Have there been court decisions on that?

Colonel PATTERSON. No, sir; there have not. Therefore, the argument proceeds. And, that argument is not only among patent lawyers as such, but also between different departments of the Government. There has been a nonconformity of ideas as it were.

I might say that it has always been the opinion of the War Department that the act of 1910 as amended, does apply to subcontractors.

Mr. SCOTT. It is the old question of privity of contract there, I suppose, raised by some. Some may have differed with that view, I imagine.

Colonel PATTERSON. Does that answer your question, sir?

Mr. SCOTT. Yes, it does, Colonel. I just had this thought in mind that in emergency or wartime legislation we ought to give you all of the power you think you need, but in connection with controversial legislation, we may be delayed in getting this power, by incorporating too much permanent legislation, too many provisions of a permanent character. I do not know whether or not they could be separated without injury to the purposes you have in mind. That is all.

Colonel PATTERSON. We feel that it is perfectly proper to continue in effect those sections other than 1 and 2, and no harm will be done.

Mr. LANHAM. Are there any other questions to be asked of the Colonel?

We certainly thank you very much for this splendid presentation.

Colonel PATTERSON. I wish to thank you for the opportunity.

Mr. LANHAM. Now, we cannot proceed with you gentlemen beyond 12 o'clock, when the House meets, and I wonder if this would be satisfactory. We have two gentlemen here from New York who are anxious to get back to New York and I wonder if we might hear them for 10 minutes each ,which will be all of the time we have, if that is sufficient for them, and then tomorrow morning, if agreeable to you Mr. Chappell, we will start the hearing with you.

These two gentlemen are Mr. Arthur Middleton, who is Assistant Secretary, National Advisory Council to the House Patents Committee, and Mr. Newton A. Burgess, president of the New York Patent Law Association, 141 Broadway, New York, N. Y.

So, if you gentlemen can get along with 10 minutes each—that is all of the time that we can allow you. Which one of you will appear first?

Mr. MIDDLETON. Mr. Burgess will speak first.

Mr. LANHAM. We will be glad to hear you, Mr. Burgess.

STATEMENT OF NEWTON A. BURGESS, PRESIDENT, NEW YORK PATENT LAW ASSOCIATION, NEW YORK, N. Y.

Mr. BURGESS. Mr. Chairman, I wish to say that so far as our association is concerned, we are very much in favor of the spirit of this proposed legislation.

We had a meeting of our board of directors last week and considered it only briefly, because of the short time, and we were unanimous in saying that we were in favor of the spirit of the bill.

However, there are a few things, many of which have been touched upon already, in which we think the bill could be improved.

I might say the first of those is in my opinion, instead of having the head of the department, and whether or not the royalty in question is unreasonable, or excessive, I think it would be a good plan to have a board appointed composed of one or more representatives from the War Department; the Navy Department; the Department of Commerce and perhaps from some other department of the Government.

You could have as many members from each of those—an equal number from each—and have, therefore, if you needed them, on account of the amount of work involved, you could have as many of these boards sitting limited to five members perhaps, as you needed for the purpose. In that way you would get uniform rules and regulations covering the procedure. You would also get centralized authority and you would get responsible people who are named to do this particular thing as representatives of these departments, and I think by proceeding in that way you would have a better opportunity to determine whether or not royalties that had been agreed upon before were excessive or not.

So, that is my first suggestion.

The Chairman has already pointed out the difficulty of having the matter delegated down from the top to the bottom, and you would have hopeless confusion I think if you did that. So that I would suggest, as stated before that this Board take care of the matter.

Now, the defenses are stated in here to be such that the Government would not be—it would be in a preferred position as respects the question of validity of patents. We all know, of course, that the law

is fixed that a licensee cannot challenge the validity of a patent under which he operates.

If this law were put into effect as it stands now, the Government would not be in that position or the contractor would not be in that position, and the patent owner would, therefore, be subject to having his patent attacked on the validity of it, and that is contrary to the present law that a licensee must let the validity stand and attack the patent only on the question of scope, that is, the question of infringement.

So that I think in the provision—I forgot which paragraph it is now—that speaks of defense, it should be changed to say that the Government or the contractor, as the case may be, should have only those defenses that are open to any other licensee.

I think that that is in paragraph 2, the license.

In any such suit, the United States may avail itself of any and all defenses generally and specially that might be pleaded by a defendant in an action for infringement, as set forth in section 6 or otherwise, and that, I think, would permit the Government to attack the validity of the patent, if I understand it correctly.

So I think that that should be remedied as to the defenses of the ordinary licensee, which would be only on the question of infringement.

Mr. LANHAM. Do we ever have that arise in reference to patent litigations, that the Government attacks the validity of the patent which it has issued?

Mr. BURGESS. Oh, yes. I do not see why not. All the defenses are open to it that are open to anyone esle. Then they could attack the validity, of course; yes, sir. That is the reason, not because——

Mr. LANHAM. I am speaking of conditions in the former practice.

Mr. BURGESS. Oh, yes.

Mr. LANHAM. That has frequently occurred?

Mr. BURGESS. Oh, yes; that is certainly so, and not because it is the Government, but because, in my opinion, the law is so well established, whether it is the Government or anyone else. That is my point, and the Government comes in here and modifies a license contract that has been made already which I think is all right. Then the Government ought to be in the same position as the licensee and should not be permitted to attack the validity of the patent under which the Government is operating and in this instance advantageously in comparison to other licensees.

Mr. LANHAM. Matters of royalty could be attacked without any attack upon the validity of the patent?

Mr. BURGESS. Of course; but this action that I speak of is for that amount which the patentee or licensee, or licensor thinks he is entitled to over and above the royalty that has been fixed by the head of the department or, as I hope, by some board which will be appointed, as I said before. It is on this additional amount that this question of attacks on the validity would come in. It would not come in at all in performing the license agreement, as I understand it.

On other matters we have—I hope that you will tell me when my 10 minutes are up.

Mr. LANHAM. You have 5 minutes more.

Mr. MIDDLETON. He may have time. I can wait over until tomorrow. I would rather have Mr. Burgess take my time and have him go right ahead.

Mr. BURGESS. Another point that occurs to me in connection with the matter is that if we have a considerable number of these cases that come up, or suits for additional compensation, after or during the war, the Court of Claims is going to be terribly congested. No doubt it already is. And, it would therefore seem to me to be appropriate to have it optional to sue for this additional compensation in the district courts rather than limit it to the Court of Claims. In that case, you see, we would have a great number of courts that could be used for the purpose of speeding up the suits and getting them out of the way and not have so many of them hanging over, as was the case after the other war, as I remember quite a number of cases there that went on for a great many years and, obviously, if all of these must go through the same course it is going to take much longer than if we had a multiplicity of courts and courts of appeal to take care of such matters, and I think that the bill should be amended or some provision should be made in it so that suits could be brought in the district courts in the district in which the licensor may be located or has his residence. That might not suit the Government. I am not sure about that, but I am not making any specific suggestions as to where justice should be. I have not had time to think that through.

Mr. LANHAM. You are speaking of the modification of section 2 to conform to that idea?

Mr. BURGESS. I think that we have even gone further than that in New York City, but my idea is to get these suits all cleaned up in a hurry and by having a number of courts that you can go into and do that, naturally you would expedite the whole matter and get it out of the way, and after all, some of these companies whose contracts are going to be revised either voluntarily or otherwise by this legislation may have to wait a long time for their money if they are entitled to anything more and it might be something; it might be a very serious matter for them, and so my thought was simply to find some way to expedite those. I am sorry that I do not have any specific suggestions to make, but that is a rather difficult question, as you can readily see.

Another thought that occurred to me, I notice the way the bill is drafted now, and I think Colonel Patterson this morning in speaking of it made the point that this proposed law would apply not only to goods, or uses, or what not, for material that had already been delivered, but, of course, to that which is delivered subsequent to the passage of this legislation.

Well, I think that it would be, it seems to me, a better plan if the law should be applied only to that material that is furnished or the use of that is made of it after receipt of the order that is provided for in the bill. In other words——

Mr. LANHAM. Well, what would you do with reference to inequities that might exist on goods that have already been delivered? Of course, we are producing goods now in such quantities, far beyond the peacetime commercial production, but would you leave the determination of those matters to legislation with reference to renegotiation of

contracts, or how would you take care of any inequities that might exist?

Mr. BURGESS. I am not too familiar with the breadth or the extent to which the renegotiation of contracts goes. I do not see any real reason why that law would not apply as well to royalties as with any other kind of contracts; that is, a license confract; but there would naturally be inequities, I think. We might say that there are some existing, and naturally they would continue until this legislation were put into effect and machinery gotten into operation so that these orders could be issued; but it would appear to me that that would be so relatively insignificant from the number of dollars, particularly as to percentage wise dollars involved in this controversy that we are in, that it could be more or less neglected.

I do not know anything about the number of dollars involved, but I would not think it would be very large.

I have no specific case in mind at all. I do not know. I imagine it would be rather considerable from the various things we have heard. Of course, we do not know just how accurate the information would be.

Looking at it from a licensee's standpoint, naturally he has proceeded on the theory of his contract and it may have made a difference with him as to how he has spent his money and proceeded. He might have laid out a lot of money in equipment or plant and something of that kind, and to come now after that and take it away after he had already made his plans based on that, I think would disrupt business and perhaps to the country as a whole, might do more harm than a relatively small number of dollars that would be involved as such.

Mr. LANHAM. That could be taken into consideration in determining the actual situation?

Mr. BURGESS. That could be. That is another thought in connection with it; but it seems to me putting him on the same basis for orders already delivered as he would be on goods to be delivered in the future, would be a slight inequity. My thought is that we could best let that matter stand. From that time on, whatever the Board or the head of the Department or what not, would determine would be the thing that would control. I think it is relatively unimportant, but it is a point which seems to me should be taken into consideration.

I have no further ideas. If there are any questions, I shall be glad to answer them. I think that just about covers my thoughts on the subject.

I thank you very much.

Mr. LANHAM. Are there any questions to be asked of Mr. Burgess? We thank you very much, Mr. Burgess.

Mr. BURGESS. Thank you.

Mr. LANHAM. Mr. Middleton, we have 10 minutes. Would you prefer to go on now, or wait until tomorrow?

Mr. MIDDLETON. I would prefer to go on now.

STATEMENT OF ARTHUR MIDDLETON, ASSISTANT SECRETARY, NATIONAL ADVISORY COUNCIL TO HOUSE PATENTS COMMITTEE, NEW YORK

Mr. MIDDLETON. My name is Arthur Middleton; I am assistant secretary, National Advisory Council to House Patents Committee, 570 Lexington Avenue, New York, N. Y.

I would say that our committee considered the bill. They approved it in principle. They recommend changes very much along the lines of what Mr. Burgess has recommended, namely, that section 5 be changed to provide for a board to administer the matter of change of royalties, because, as has been pointed out by the chairman, the delegation of authority to change a contract and even to terminate the royalty completely is left for delegation too far down the line, and I would like to call attention to the fact that the words "if any," as in section 1, which implies that the remedy can be completely terminated——

Mr. LANHAM. In line 6, page 2.

Mr. MIDDLETON. Yes, sir. Now, I had considerable experience in these matters in the last war. I was a patent adviser to the Army and Navy Patent Board. I was assistant to the Munitions Patent Board. I was representative of the Secretary of War and Assistant Secretary of War in the Patent Office. I was a member of the inventions section of the General Staff, and I handled numerous details in relation to these subjects, and from this experience in the last war, I certainly would recommend that a board be created to handle these matters.

We do not want the prosecutor to be the judge. The man who makes the decision should not be the man who makes the contract. He should be as impartial as he can be, and, therefore, I think he should be a different officer.

Therefore, I recommend that section 5 be amended to set up a board which might be called the Munitions Royalty Board, composed of three members, of which one shall be selected and appointed by the Secretary of War, one by the Secretary of the Navy, and one by the Secretary of Commerce.

Now, I think that the Congress should know pretty accurately who is going to compose this board, possessing this authority and judgment which is delegated to it by the Congress. I think in this way we would accomplish that. I think that board should be given a yardstick by which it should measure its judgments and I would propose that the board before issuing an order should give a hearing to the man whose contract is being considered, and that the board should hear all interested parties.

Now then, after that, I think that board should take into account all pertinent facts of the situation, including conditions of wartime production as well as values ventured in perfecting and exploiting such licenses and inventions and the benefits derived by the Republic therefrom.

Mr. LANHAM. Should the yardstick, in your judgment, be fixed by that board, or should it be fixed by legislation?

Mr. MIDDLETON. I would leave it to the board. I would simply give the board this general yardstick to use in its discretion in issuing orders.

Mr. LANHAM. I think that is correct, because it would be a very difficult matter to determine legislatively.

Mr. MIDDLETON. Every case might be different. It is just giving general instructions.

So, sir, except for that and endorsing Mr. Burgess' recommendations, I thank you.

Mr. LANHAM. Mr. Middleton, with reference to the words "if any" in line 6, page 2, if the validity of the patent were brought into controversy, under the act, and authority existed to bring into controversy the patents, and the patents should be determined to be invalid, then there would not be any royalty, or might there be under a contract?

Mr. MIDDLETON. There might be, and that is the point that Mr. Burgess brought up. That is of section—I think it is perhaps 8—if section 2 were amended so that in a suit before a court the Government had no more rights than the licensee had, then the question of validity would not arise. The only thing there is, I do not think that the board should be given the power to cancel all payments of royalties. It is all right to give the power to reduce it, considering all of the surrounding facts.

Mr. LANHAM. Thank you very much.

Mr. SCOTT. Mr. Middleton, could I ask you one question?

Mr. LANHAM. Mr. Scott.

Mr. SCOTT. What do you think as to the right of appeal from such a board?

Mr. MIDDLETON. I would be inclined to say that if you had a board of this type, that you would hardly need an appeal except to a court. I would not set up a second commission; no.

Mr. SCOTT. No; no commission on a commission.

Mr. MIDDLETON. We know from our experience in the last war——

Mr. SCOTT. Appeal to a court is what I had in mind.

Mr. MIDDLETON. We know from our experience in the last war that you got substantial justice done, so that I would only permit an appeal to the courts from this one board, but I would like to see an appeal not limited to the Court of Claims, but to be made to our district courts.

Mr. LANHAM. Thank you very much.

Gentlemen, we will adjourn to meet at 10 o'clock tomorrow morning in the hearing room of the Committee on Rivers and Harbors in this building, room 1304.

(Thereupon, at 12 noon, the committee adjourned until 10 the following morning, as above indicated.)

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

WEDNESDAY, OCTOBER 14, 1942

HOUSE OF REPRESENTATIVES,
COMMITTEE OF PATENTS,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m., in the hearing room of the House Committee on Rivers and Harbors, New House Office Building, Hon. Fritz G. Lanham presiding.

Mr. LANHAM. The committee will please come to order. We have this morning a letter from the Under Secretary of the Navy, Hon. James Forrestal, Acting Secretary of the Navy, under date of October 12, 1942, addressed to the chairman of this committee with reference to this measure, as follows:

DEPARTMENT OF THE NAVY,
Washington, October 12, 1942.

Hon. CHARLES KRAMER,
Chairman of the Committee on Patents, House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: The bill H. R. 7220 to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, was referred to the Navy Department by your committee for report thereon.

Briefly summarizing this bill (1) empowers the head of any Government department or agency to reduce payments of royalties on patented material supplied to that department or agency under license from the patent owner when the rate of royalty is considered by the head of such department or agency to be excessive;

(2) Authorizes the head of a department or agency to determine a fair royalty rate, in view of wartime production, that the license supplier may pay his licensor;

(3) Forbids the supplier to charge to the United States, either directly or indirectly, royalties at a rate in excess of the rate fixed by the head of the department or agency concerned;

(4) Provides that the sole remedy of a licensor aggrieved by royalty rates so fixed shall be by suit against the United States in the Court of Claims to recover such additional sums as will constitute a total that is a fair and reasonable royalty;

(5) Makes available to the United States, in any action brought for the purpose next above stated, any and all defenses that might be pleaded by a defendant in a suit for infringement of a patent as set forth in title sixty of the Revised Statutes or otherwise;

(6) Authorizes the head of the Government department or agency to settle before suit any claim arising under the provisions of the act;

(7) Requires that any reduction in royalties pursuant to the act shall inure to the benefit of the Government;

(8) Permits the delegation, in writing, of the authority and discretion conferred by the act;

(9) Construes as manufacture, use, sale, or other disposition for the Government the manufacture, use, sale, or other disposition of an invention covered by a United States patent by any contractor, subcontractor, or any person, firm, or corporation, for the purposes of both this act and the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. 68);

(10) Makes the act applicable to all royalties directly or indirectly chargeable to or payable by the United States from and after the date of approval;

(11) Provides for expiration of sections 1 and 2 of the act 6 months after the termination of the war, except that as to rights and liabilities accruing prior to the termination of the act, it shall be treated as remaining in force for the purpose of sustaining, nullifying, or defeating any claim or suit arising thereunder; and

(12) Authorizes the head of a department or agency to make rules and regulations and require information necessary to carry out the provisions of the act and makes the provisions of section 10 (1) of the act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, applicable to the owner, licensor, or licensee of a patent or an application for patent covering an invention manufactured, used, sold, or otherwise disposed of for the United States and defines the term "defense contract" as it relates to the operation of this act.

The Navy Department has found that in many instances, manufacturers with whom contracts for the production of material for the Navy Department have been placed are operating under licensing agreements, entered into prior to our entry into the war, binding such manufacturers to pay specific royalties. These royalties under peacetime conditions and for the quantities then being produced may be considered fair and unreasonable, but when applied to the enormous quantities needed for the prosecution of the war, these royalty rates are regarded in some cases as exorbitant, excessive and unfair.

This situation, in a number of instances has been somewhat relieved by negotiations between representatives of the Navy Department and the owners of the patents. This method, however, has not been entirely successful because patent owners are legally entitled to require observance of existing contractural obligations.

The proposed legislation will provide a much needed remedy for these conditions.

There is also some doubt as to whether the provisions of the act of June 25, 1910, as amended (35 U. S. C. 68), are sufficiently broad to cover manufacturers or users operating under license agreement and their subcontractors and sublicensees and to afford protection against infringement suits in the event of the manufacture, use, sale, or other disposition under such conditions of patented articles on orders and under contract with the Government. To eliminate uncertainty and properly and fully to protect such manufacturers and users, including subcontractors and sublicensees, the proposed legislation is considered necessary and desirable.

It is likewise considered desirable to make the legal remedy against the Government exclusive, thus eliminating constant danger of litigation and controversy over royalty payments between patent owners and those manufacturing, using or otherwise dealing with patented articles or processes for or on behalf of the Government.

The provision of section 3 which authorizes the head of any department or agency of the Government to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of inventions, in full settlement of any claim against the United States accruing to such owner or licensor under the provisions of this proposed Act or any other law by reason of the manufacture, sale, or other disposition, is considered desirable.

The limitation of the act to the duration of the war and 6 months thereafter, thus making it a wartime measure, will undoubtedly aid in maintaining the constitutionality of the act.

The Navy Department is unable to estimate the fiscal effect of the enactment of the bill H. R. 7620. It is believed, however, that the bill, if enacted into law, would result in effecting a very considerable saving in procurement cost to the Government.

For the foregoing reasons, the Navy Department recommends early enactment of the bill H. R. 7620.

The Navy Department has been advised by the Bureau of the Budget that there would be no objection to the submission of this recommendation.

Sincerely yours,

JAMES FORRESTAL, *Acting.*

Mr. LANHAM. We have with us this morning from the Navy Department Mr. Ralph L. Chappell, Procurement Legal Division, Office of

the Secretary of the Navy. According to the information sheet before us yesterday, we gave a wrong designation of Mr. Chappell's official position; but he is with the Procurement Legal Division, Office of the Secretary of the Navy, and we will be very glad indeed to hear from Mr. Chappell.

Colonel PATTERSON. Mr. Chairman, before Mr. Chappell takes over, I have a suggestion I would like to present to the committee.

Mr. LANHAM. Colonel Patterson.

STATEMENT OF COL. EARL S. PATTERSON, WAR DEPARTMENT—Resumed

Colonel PATTERSON. Since the hearing yesterday, representatives of the War, Navy, and the Department of Justice, have given consideration to the suggestions made before the committee with regard to section 5 of the bill, relating to the delegation of authority.

We are authorized to suggest to the committee this morning that it would be entirely agreeable to the mixed group, that is, to War, Navy, and Justice, for there to be substituted in lieu of section 5, a new section 5 which would read as follows:

SEC. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the redelegation of any power and authority conferred by this Act to such responsible officers, boards, agents or persons as he may designate or appoint.

I want to point out to the committee, if I may, the fact that the language in such section makes it necessary that the delegation of the authority be made under rules and regulations, rather than merely a general delegation. In other words, we have in mind that this power in the Secretary of War would be exercised by a subordinate officer, such as a contracting officer, only under such rules and regulations as the Secretary of War might prescribe.

Now, in adopting that language for presentation to the committee, we have been guided by the other grants of power as to redelegation which now exist in connection with wartime procurement.

I wish to bring to the attention of the committee the provisions relating to the delegation of power given by the Congress in connection with several of the acts. I first refer to the act of December 18, 1941, title II, section 201, an act to expediate the prosecution of the war effort.

SEC. 201. The President may authorize any department or agency of the Government exercising functions in connection with the prosecution of the war effort, in accordance with the regulations prescribed by the President for the protection of the interests of the Government, to enter into contracts and into amendments or modifications of contracts heretofore or hereafter made and to make advance, progress, and other payments thereon, without regard to the provisions of law relating to the making, performance, amendment, or modification of contracts whenever he deems such action would facilitate the prosecution of the war.

Mr. LANHAM. The phraseology of that particular provision would not apply to these royalty contracts, I take it, in view of the fact that they are not between the Government and some contractor.

Colonel PATTERSON. That is true, sir, I believe.

Now, pursuant to that authority given to the President by the Con-

gress under that act, the President subsequently issued his Executive Order No. 9001, which provides as follows:

> The authority herein conferred may be exercised by the Secretary of War, the Secretary of the Navy, or the United States Maritime Commission respectively or in their discretion and by their direction respectively may also be exercised through any other officer or officers or civilian officials of the War or the Navy Departments of the United States Maritime Commission. The Secretary of War, the Secretary of the Navy, or the United States Maritime Commission may confer upon any officer or officers of their respective departments, or civilian officials thereof, the power to make further delegations of such powers within the War and Navy Departments, and the United States Maritime Commission.

In other words, at the present time, insofar as contracts generally are concerned, there is an absolute delegation of authority down from the Secretary of War, in the case of the War Department, to the Under Secretary of War and then in turn to such boards or officers as he may designate.

Now, it may be interesting to the committee to know how zealously the War Department guards this authority given to it to know that at the present time and under this order, insofar as the settlement of claims arising under contracts are concerned, the Under Secretary of War has appointed a committee or board which is made up of high-ranking officers which consider all claims submitted in controversies between contractors and the War Department.

Upon the recommendation of that committee or board, the Secretary or Under Secretary make orders in connection with such compromises.

I also wish to call to the attention of the committee the provisions of Public Law 507, Seventy-seventh Congress, which is known as the Second War Powers Act, referring to subsection 8 of section 341, which reads as follows:

> The President may exercise any power, authority, or discretion conferred on him by this subsection (a), through such department, agency, or officer of the Government as he may direct and in conformity with any rules or regulations which he may prescribe.

Mr. LANHAM. That does not provide for redelegation of the authority unless his rules and regulations so prescribe.

Colonel PATTERSON. Which they always do, sir, necessarily.

It is a physical impossibility for the War Department to operate without the authority to redelegate, and I might say very frankly to the committee that if this bill was passed without such authority to redelegate, it would be practically useless to the Department.

Mr. LANHAM. Yes; I think we appreciate the necessity for some such delegation or redelegation, Colonel. It was simply a matter in our minds that there ought to be some definite fixing of responsibility to avoid confusion and uncertainty, and these are most helpful excerpts from the law.

Colonel PATTERSON. Now, I wish to also bring to the committee's attention——

Mr. LANHAM. When was that Second War Powers Act enacted?

Colonel PATTERSON. The Second War Powers Act——

Mr. LANHAM. When was it approved?

Colonel PATTERSON. The Second War Powers Act was approved March 27, 1942.

I also wish to refer to Public Law 528, Seventy-seventh Congress, which was approved April 28, 1942, which is an act which provides

for the renegotiation of contracts, and I presume the committee are familiar with the fact that each of the Departments, both War and Navy, have set up boards for the renegotiation of contracts. Those boards are composed of both civilian and officer personnal, and in turn there are subboards set up in various other branches whose original findings are submitted to the final board. That board operates again under the Under Secretary of War, and its findings are submitted to him for final decision.

The act that I have referred to, that is, Public Law 528, provides:

(f) The authority and discretion herein conferred upon the Secretary of each Department, in accordance with regulations prescribed by the President for the protection of the interests of the Government, may be delegated, in whole or in part, by him to such individuals or agencies in such Department as he may designate, and he may authorize such individuals or agencies to make further delegations of such authority and discretion.

So that there is no question, insofar as these various acts are concerned, there is complete power of redelegation and it is left entirely to the discretion and the good judgment of the Secretary of War to see to it, or the Secretary of the Navy, as the case might be, to see that the power is delegated to the proper officers.

Mr. LANHAM. May I ask this question there, Colonel Patterson? Could not such a redelegation of power be limited to responsible heads of the departments or at least under rules and regulations that those responsible heads would prescribe, with the omission of such reference to an agency, unless the head of the department—responsible head of the department, would indicate the delegation to that agency?

There has been some fear, by reason of the fact that we have so many of these agencies and they have such different functions, some of them of major importance and some of them of minor importance, that to give blanket authority to an agency to make rules and regulations would make for lack of uniformity and lead to confusion.

Colonel PATTERSON. I do not know that I can answer that question entirely to the satisfaction of the committee, sir. I appreciate your feeling with regard to other agencies than the War Department and Navy Department.

Mr. LANHAM. I do not mean that agencies should not have such authority delegated to them; but within these agencies, in the bill as it is brought before us, they are on a party with the heads of the departments.

Now, if these responsible department heads make a rule or regulation and provide for a redelegation of power to an agency, why, of course, that would seem to be very proper procedure. We realize there must be a redelegation of power, but to give the heads of the various agencies the same authority in this regard that you give to the departmental heads would seem to us to be a little confusing.

Colonel PATTERSON. Well, would you designate, sir, the Maritime Commission as an agency or a department?

Mr. LANHAM. Well, of course, it is in a way an independent branch of the Government, and a very important one, and so far as I am concerned, I have no objection whatever, personally, if necessary, having a direct reference to the Maritime Commission, and I think I stated yesterday in making my suggestion—which was simply one for consideration—not only the Secretary of War and the Secretary of the Navy, but also the Maritime Commission.

I am sure that can all be worked out in some satisfactory way. We are anxious to avoid confusion and uncertainty so that these various manufacturers, patent owners, and so forth, will know how they are operating, if the rules and regulations under which these agencies would operate were promulgated by responsible heads of departments.

Colonel PATTERSON. Well, perhaps my inability to answer the question to the satisfaction of the Congressman is due to the fact that I cannot now think of any agency, as such, which is involved in war procurement which would come within the definitions used, as to not having the proper authority or functions, or whose authority might be questioned.

Mr. LANHAM. I do not think that this bill even prescribes that such agency shall be interested in war procurment, does it? It is just a sort of blanket reference to these things. I think there is no difference in our minds as to what we are seeking to accomplish. It is simply a matter of getting the proper phraseology.

Now, these suggestions that have been made here by you are most helpful, and I am wondering if you have a sufficient clerical force in order that you might have made for the members of the committee copies of your suggested revisions of section 5 and copies of these excerpts from these various laws to which you refer.

Colonel PATTERSON. We will be happy to do that, sir.

Mr. LANHAM. Because in our consideration of the matter in executive session it will be very interesting and helpful to have those before us.

Colonel PATTERSON. I might add to what I have already said with regard to the suggested amendments that we are bringing to the committee at this time, that we have purposely inserted the words "responsible officers, board, or person."

Mr. LANHAM. I notice that.

Colonel PATTERSON. To indicate that there would at least be some greater degree of responsibility in office of the person designated by the Secretary or to whomever the authority was delegated, to perform this function. I think we are all working to the same end in that regard. It is just a question of the particular road we want to take to get to our destination.

Colonel VANDERWERKER. Here are some copies of section 5 that we propose.

Mr. LANHAM. Thank you.

Colonel PATTERSON. I might add, for the purpose of the record, Mr. Chairman, that by the use of the word "responsible" we do not intend to indicate that the particular officer is to be financially responsible for his acts.

I wish also to bring to the attention of the committee the provisions of the Selective Training and Service Act of 1940, that is, Public Law No. 783 of the Seventy-sixth Congress, and this is the act by which you empowered the Congress empowered the Secretary of War and the Secretary of the Navy, and the President to draft our manhood with whom we are fighting this war, and in that case, in connection with the draft act, it is provided in subsection (3) (b) of section 10:

(b) The President is further authorized, under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any authority vested in him under this Act to such officers, agents, or persons as he may designate or appoint for such purpose or as may be designated or appointed for such purpose pursuant to such rules and regulations as he may prescribe.

I think it is safe to say that in practically every instance now in which the War Department or the Navy Department, or the Maritime Commission, are authorized to take action in connection with procurement there is likewise a provision for the delegation or redelegation of authority and it is only because we have found it is necessary and it is only because the strict interpretation of the law with regard to delegation of authority makes it necessary that it be put in the act and not left to conjecture as to whether authority is or is not given.

In addition to that suggested change, Mr. Chairman, I also wish to suggest—and I am authorized to present to the committee now—a new section to be added to that which was given to the committee yesterday reading as follows——

Mr. LANHAM. Mr. Wolverton would like to ask a question before you leave that section 5.

Colonel PATTERSON. Yes, Mr. Wolverton.

Mr. WOLVERTON. Colonel, is it intentional that the proposal which you have submitted to the committee with reference to section 5 should broaden the power of the department head as to the agency or individual to whom he is to delegate his authority?

In other words, it would seem under the reading of section 5 as it appears in the bill, that the delegation is to be to the individual officer, board, or bureau in such department or agency. Would that mean that he would only make the delegation to a board or an agency, or individual that comes under his particular department?

Colonel PATTERSON. That is true, so far as the language of the present section 5 is concerned.

Mr. WOLVERTON. Yes.

Colonel PATTERSON. It is not true so far as the language of the proposed section 5 is concerned.

Mr. WOLVERTON. That is what I wanted to bring out, that while the section as it appears in the bill restricts the power to delegate to a department or agency that comes under the particular delegating authority, your section as you now submit it would permit him to make a delegation to any department or agency regardless of whether it comes under his particular jurisdiction or not. Is that right?

Colonel PATTERSON. It is true. If, for instance, the Secretary of War, the Secretary of the Navy, or the Maritime Commission should decide that the Army-Navy Munitions Board or the Patent Advisory Committee of the Army and Navy should act as a joint committee for the hearing of claims involved in connection with this act, they would have authority to set up such a committee, joint committee of Navy and Army officers to hear and recommend or decide as an advisory board, what should be done in connection with the particular case.

Now, I have no particular brief for that language or for that idea, and I have no hesitancy in saying to the committee that neither the War or Navy Department would object to the limitation in the original section 5 limiting the authority of the Department or agency. In other words, in preparing the new section 5 we did not feel that it was very necessary that that power be enlarged. We were in fact endeavoring to fix its scope in such a way that the committee would feel that whatever action was taken by the heads of the departments in delegation of authority would be done properly.

Mr. WOLVERTON. Well, you have made plain what seemed to me to be the difference between the two sections, the one in the bill, and the one that you propose.

Now, do you think the use of the words "delegation of any power and authority conferred by this act" as it appears in the section which you have proposed makes a difference in the intent or purpose of the language used in section 5 in the bill where it says he may delegate in writing in whole or in part?

Now, do you think there is any difference in the meaning between "delegated in whole or in part" and the use of the words in your proposed section 5, of any power and authority?

Colonel PATTERSON. I do not, sir. I think they are equally comprehensive.

Mr. WOLVERTON. In other words, what I have in my mind is this, by the use of the words "any power and authority," would that relate to the whole power and authority or any part thereof, or would it only relate to the actual power that is given to him?

In other words, he could delegate that whole power and not any part thereof.

Colonel PATTERSON. My present conception of the language, sir, is that there would be no difference.

Mr. WOLVERTON. I was wondering why you used different language than that which is in the proposed bill which seems to leave no doubt that you do delegate in whole or in part.

Why did you make that change? Was there any particular reason why, or did you think that that language would give a different authority or more authority or less authority; or what was the reason for changing the words "in whole or in part"?

Colonel PATTERSON. It was not done with the idea of giving any different authority, or any that additional authority would be given, sir. It was simply this, that section 5 was prepared very largely in the light of the provisions of these other acts which I have read to you, and we attempted to follow pretty closely the language contained in them.

Mr. WOLVERTON. The reason I raised the question is it would seem to me that there should be no doubt as to the right to delegate the whole power or any part of it, and I was, maybe without deep thought, wondering, and it occurred to me when you say "any power and authority conferred," that it might be only the general or original power or authority that could be delegated.

Colonel PATTERSON. That was certainly not our intention.

Mr. WOLVERTON. No; I do not think it was, but I thought in view of the fact that you had not used the words "in whole or in part"—it could have been inserted very easily—that maybe you have a reason for it.

Colonel PATTERSON. Referring to the additional section which the War Department wishes to present to the committee for its consideration—it would be known as section 9 of the bill, and would be inserted for the present existing proposed section 9, making section 9 section 10.

Mr. LANHAM. Do you have copies of this?

Colonel PATTERSON. We will have to furnish copies to the committee.

Mr. LANHAM. Very well.

Colonel PATTERSON. It is a short section, and I will read it at this time:

Nothing herein contained shall be deemed to preclude the applicability of section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or thereafter amended so far as the same may be found applicable.

Now, section 403 of Public Law 528 deals with renegotiation of contracts, and as the committee knows, there is now pending, I believe, a bill which has already been passed by the Senate which amends section 403 with regard to the renegotiation of contracts, and it is thought that because of the fact that it is not known whether this bill would be acted upon by the Congress prior to the enactment of that amendment that there should be no question as to this law being subject to and not acting as a repeal in any way any of the provisions of the renegotiation statute.

Mr. LANHAM. That would give you authority, would it not, to act with reference to the provisions in this bill?

Colonel PATTERSON. I beg your pardon.

Mr. LANHAM. There is a provision in this bill, if I can find the section in which it appears, about deliveries already made under the contracts heretofore existing.

Colonel PATTERSON. No; it does not apply to that, sir; it applies to the cases where we would make a contract in settlement of an existing patent controversy. For instance, if we should, acting under the procedure set up in the bill, say to a contractor, "Pay a dollar a unit instead of $10 a unit royalty," and thereafter enter into a compromise contract with the patentee, agreeing that the particular use should be compensated for at $5 a unit instead of $10 a unit or $1 per unit then if the compromise contract came within the definitions prescribed by the Renegotiation Act, it would also be subject to renegotiation.

Mr. LANHAM. Just where in this bill is reference to that made?

Colonel PATTERSON. That is section 3, I believe, sir, in the original bill that is pending that refers to compromise.

Mr. LANHAM. If deliveries had been made in part and the contract was still in force, why, this renegotiation clause would apply to such contracts, would it not?

Colonel PATTERSON. It would apply as to the contracts between the Government and the Government contractor or manufacturer, but that would have nothing to do with the subject matter of this bill. The renegotiation feature to which it would be applicable under this bill would be only that contract which was made with the Government by the patentee after the controversy arose and in settlement of his patent rights, as for instance, if we should say to the patentee we will pay you $25,000 for everything that has gone before this time, and we want the future use of your patent, and we will pay you $150,000 for the future use of your patent, such a contract might, under the definitions of the renegotiations statute be subject to its provisions and could be renegotiated if it should later be determined that it was excessive or improper.

Mr. LANHAM. That is supposed to be applicable only during the time that we are in war, is it not?

Colonel PATTERSON. Yes, it pertains only to war contracts.

It has been brought to my attention that my statement may be inaccurate as stating that a lump sum settlement of a patent controversy

might be considered as being within the provisions of the renegotiation statute. I intended to convey the thought to the committee that whatever contract was made in settlement of a controversy existing under this bill, if it in turn came within the provisions of the renegotation statute, as amended, then, of course, it would be subject to renegotiation. It is not our intent to enlarge or limit the renegotiation law.

Thank you.

Mr. LANHAM. You have concluded?

Colonel PATTERSON. Yes, Mr. Chairman.

STATEMENT OF RALPH L. CHAPPELL, PROCUREMENT LEGAL DIVISION, OFFICE OF THE SECRETARY OF THE NAVY

Mr. LANHAM. We shall now be glad to hear from Mr. Ralph L. Chappell, Procurement Legal Division, office of the Secretary of the Navy.

Mr. CHAPPELL. Mr. Chairman and gentlemen of the committee, the Navy Department has collaborated in drafting this bill, H. R. 7620, and in submitting it to Congress. I have been designated to present to this committee the situations which have been encountered in naval procurement which have led the Navy Department to do so.

The bill is predicated upon the sound principle that, in time of war, inventions, as well as all other resources of the Nation, should be available to the Government in exchange for reasonable compensation to the owners. Its object is to assure this in the best and most practical and expeditious way.

The act of June 25, 1910, as amended July 1, 1918 (35 U. S. C. 68), goes a long way toward assuring this. It provides that when inventions are used or made by or for the Government, without license of the owner, his remedy shall be a suit against the Government in the Court of Claims for his reasonable and entire compensation. T is act not only makes inventions available for a reasonable compensation, but it eliminates litigation and injunctions against contractors who undertake to supply the inventions to the Government. All contractors stand on an even footing.

This situation does not exist when the owner of an invention has issued licenses calling for the payment of royalties by the licensee to the owner. The act of June 25, 1910, as amended does not relieve the licensee of his obligation to pay the royalties called for in the license.

Mr. LANHAM. And that very fact indicates the necessity for such legislation as this, does ot not?

Mr. CHAPPELL. That is right. Even though he is using or manufacturing the invention for the Government. There is, if the royalties are unreasonable in amount, an anomalous situation with the Government having the broad right to utilize the invention for a reasonable compensation to the owner but unable to obtain the invention from the licensee except by paying, as a proper item of cost, the unreasonable royalty called for by the license. Even if the Government wishes to tell the licensee to disregard the license and not pay the royalty the liability for the full amount of the royalty cannot be avoided and the licensee cannot be relieved of the threat of litigation, namely a suit for breach of contract.

In the usual case the licensee has been manufacturing or using the invention and has the equipment, knowledge and skill necessary for making the invention available to the Goverment most efficiently and speedily. He is the logical source of supply and it would be wasteful where time is of the essence to turn to another source even if equipment were readily available to equip such other source.

The present bill, H. R. 7620, remedies the situation and makes the licensee available as a source of supply at a reasonable royalty. The Government is thus not hompered in exercising its right to utilize the invention for reasonable compensation to the owner of the invention. The invention is utilized through the logical source and the war effort is not impeded.

I do not want to give the impression that all existing royalty contracts call for unreasonable royalties. There are cases, however, where the royalties called for in existing licenses are unreasonable. In many cases this has come about through no fault of either the licensee or the licensor owner of the invention. When two parties enter into a license agreement various factors are considered, and the parties do their best to foretell what will happen during the life of the contract. Royalties are arrived at from considering various factors, including the outlay involved in the invention, the value of the invention, and the probable production of the licensee. The war effort and the huge production involved could never have been foretold when many license agreements were entered into and royalties which were agreed upon as giving the owner of an invention a fair reward on the basis of peacetime production now give the owner of the invention unfair and unreasonable compensation for the invention.

In many cases the owners of inventions have recognized the unfairness of the return and have patriotically agreed to take a greatly reduced royalty, and in some cases they have given royalty-free licenses to the Government. In some cases, however, the owners of inventions have insisted on receiving the full royalty even though unreasonable. The bill, H. R. 7620, will make it possible for the Government to deal with such cases and exercise its right to utilize the invention for a reasonable compensation to the owner of the invention and to utilize the logical agency to exercise this right.

I have several examples which have arisen in connection with naval procurement and which illustrate the problem which this bill H. R. 7620 should solve.

Mr. LANHAM. And with reference to the payments that may have been made under those unreasonable royalty agreements, will this legislation have a retroactive effect that will also enable the equities to be considered and enforced? In other words, where unreasonable payments have already been made, is that water by the mill that we cannot reach, or will this legislation simply have reference to what the future may hold in matters of this kind?

Mr. CHAPPELL. Well, I believe that this legislation will touch primarily royalties which have not yet been paid. However, it is not at all unreasonable to think that in determining what is a reasonable royalty the test might be considered. I do not think there is any specific authorization in the bill and no intention of going back of a situation where the royalty has actually been paid.

Mr. LANHAM. In other words, under the renegotiation statute there would be no opportunity to recoup for the Government unreasonable fees that have been paid.

Mr. CHAPPELL. I do not think in this there would be. If the renegotiation Act could be had to apply, it would be done on the basis of those acts.

Mr. LANHAM. Then our problem is to prevent a repetition of instances of that character that have occurred heretofore?

Mr. CHAPPELL. That is right, and to put all owners of inventions on the same basis, whether or not they have issued licenses. The 1918 act permits the Government to obtain the use of inventions for a reasonable sum, and if there is a license, the act is not applicable, and this merely puts all owners on the same basis.

In one cost-plus-a-fixed-fee contract which is now pending, the estimated cost is $5,230,000. The fixed fee is $313,800. One item of cost is a 10 percent royal which amounts to $550,000. The contractor is bound by an existing contract to pay this royalty to a third party and will incur the liability if he produces the goods. The contractor has been in the business and has the equipment and knowledge and is the logical source for the equipment but the royalty appears to be high since it is nearly twice as large as the contractor's fixed fee. If the present bill, H. R. 7620, were law, this matter could be taken care of easily and under the existing law the only way to reduce royalty would be to appeal to the patriotism of the contractor and get him to reduce his royalty. That may be possible in many cases to accomplish that, and it may not, and we do not like to be put on the speculative basis of having to make such an appeal, particularly when the contractor is deaf to it.

Mr. HOLLAND. Mr. Chairman.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. I would like to ask a question: On that cost-plus basis, would the royalty be figured in the cost first before the costs were put on?

Mr. CHAPPELL. My understanding of the way cost-plus contracts are carried out in the Navy is that costs are estimated only. Thereafter, a fixed fee is determined and after the fixed fee has been determined the Government pays that fee and then pays whatever the actual costs are. Now, I do not know whether the royalty is considered in an item of cost in determining what the fixed fee is to be or not; but the fixed fee is not a percentage fee. It is arrived at through various considerations. I think there is a tendency to use 6 percent of the cost as the fixed fee; 6 percent of the estimated cost as the fixed fee, but I understand that the law prohibits any cost-plus-a-percentage contract.

Mr. LANHAM. You are not executing any contracts now on the cost-plus-a-percentage basis?

Mr. CHAPPELL. No. That is not done at all.

Mr. LANHAM. I think under existing law, as I recall, the 6-percent-fixed fee is the maximum, is it not, and that many of these fees are on a basis lower than 6 per cent?

Mr. CHAPPELL. Some in the Navy are done on a straight-cost basis. I know of such contracts, and I think that the amount of the fixed fee is something that is determined by negotiation and within the limits prescribed by law.

I cannot say whether the particular 10-percent royalty here involved had actually been considered in determining the fixed fee or not. I am under the impression in this particular contract, from the way it came up, that it had not been figured as an item of cost.

In another case involving necessary equipment where available sources are limited in number one contractor who is an important producer of the item has a license calling for a royalty. In one contract alone the royalty called for is $87,000 and other contracts for the same equipment will have to be let. In other words, we have a specific contract with one of the important sources of supply and equipment who is tied to pay a particular royalty and others are not tied to pay the same royalty.

Mr. LANHAM. I think it is very clear that many of these royalty rates in the limited production of peacetime are quite reasonable and yet in the magnitude of our war production would be decidedly unreasonable.

Mr. CHAPPELL. In this particular case, the royalty would probably be fair in times of peace, but the war-time schedules have made the return to the owner unreasonable.

Mr. HOLLAND. Mr. Chairman.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. Most of those royalties are based upon limited production?

Mr. CHAPPELL. That is right.

Mr. HOLLAND. While you have an unlimted production?

Mr. CHAPPELL. Yes; and I think in determining royalties in peacetime negotiation the possible producing capacity of the licensee is a factor that is considered as one of the important determinations in arriving at the royalty.

Mr. LANHAM. Even under the provisions of this act, the compensation which the owner of the patent would receive as royalty, reduced by these agreements, would be far in excess of what he ever could have hoped to get from his royalty under normal conditions.

Mr. CHAPPELL. That is my idea of the way the act would be administered. There would be no intention, I am sure, of any one trying to deprive the owner of an invention of reasonable compensation.

Another case which illustrates the point is one in which the owners of the inventions had a peacetime license with the contractor which was very reasonable. The owners would in normal times receive an annual royalty of from $20,000 to $30,000. In the single contract involved in the Navy Department the owners of the inventions stand to receive well over $100,000, to say nothing of what they would receive on further contracts which are bound to come up because the licensee is one of the most important sources of the equipment.

In another instance several manufacturers who are the main source for certain equipment are obligated to pay royalties which appear to be high in view of certain later developments. A great deal of equipment is needed, and the royalties will reach a large total which now appears to be unreasonably large for the contribution which the inventions have made.

There is a further case involving a highly specialized piece of equipment where the royalty due to a third party was $25 per unit. The price of the equipment was $65 per unit, less royalty. The Navy

Department was purchasing 21,000 units and contemplated purchasing more.

This royalty had been established in peacetime. It was estimated that the units would be built for $250 each although this was a lower price than had yet been established in peacetime production in limited amounts. The owner of the invention was not disposed to reduce the royalty and considerable difficulty was encountered.

I cannot tell you how that case terminated, but it is a good illustration of the way royalty of a fixed amount particularly can become very unreasonable when your production schedules are really established. This was a case where the patentee had really tried to work out a very fair royalty in advance of the war situation.

In another instance where sources of supply are scarce there are two contractors bound by royalty contracts which appear to be unreasonable. It is not practical to establish new sources, and it is doubtful whether this could be done in a reasonable time. As long as the equipment is purchased from the licensed sources the royalties will continue to accrue and even if the Government orders the contractors not to pay the royalties the Government will have to pay excessively in the end. These particular contracts involve both patented and unpatented inventions of doubtful validity.

In another case a contractor is bound by contract to pay a third party a percentage on business done in developments made by the third party whether patented or unpatented. The Navy Department in this case, which involved a fixed price contract, refused to allow the contractor to include the royalty which was over 7 percent in his cost break-down. The contractor reduced the price on the contract and is, I understand, continuing to pay the royalty out of profits. Here we have a case in which the Government has obtained a reduction in price and in which the contractor has reduced his profit, but the owner of the invention has not cooperated. It would seem that if the contractor is willing to reduce his profit the Government should benefit and that the owner of the patent should likewise reduce his return.

In many cases the owners of inventions have been most cooperative and have reduced the royalties even to waiving them. There are cases, however, where the owners have not cooperated and there are enough of them to warrant the remedial measure which is proposed here.

Mr. LANHAM. Have you concluded your statement?

Mr. CHAPPELL. That concludes my statement.

Mr. LANHAM. We certainly are obliged to you, sir, and indebted to you for this very splendid statement, and it is most helpful in giving the picture and showing the necessity for speedy enactment of proper legislation.

Mr. HOLLAND. Mr. Chairman, I have one question.

Mr. LANHAM. Mr. Holland.

Mr. HOLLAND. Would this act have anything to do with lend-lease articles?

Mr. CHAPPELL. So far as I can see it has no direct application to the lend-lease situation. However if we do purchase materials and then turn them over to the other governments, I think we have all of its benefits.

Mr. HOLLAND. If the other governments purchase under the lend-lease plan, what happens?

Mr. CHAPPELL. I am not really qualified to discuss the matter.

Mr. HOLLAND. Will they have to pay more money for the goods which they purchase?

Colonel PATTERSON. I think I might answer that. At the present time practically all procurement by lend-lease for other countries is through the War and Navy Departments and they are War and Navy contracts, and as such they would be subject to this legislation.

Practically all money now used in connection with lend-lease procurement comes under the War Department and the Navy Department appropriations, with a provision in the bill that the funds may be utilized to a limited extent. I think in the Sixth Appropriation, $12,600,000,000 was for lend-lease purposes.

Mr. LANHAM. I assume, Mr. Chappell, that the Navy Department, in a similar way to the War Department, regards, of course, a patent right as a property right.

Mr. CHAPPELL. That is true.

Mr. LANHAM. Thank you very much.

Mr. CHAPPELL. I might say that we are in accord with what Colonel Patterson has said here. I have made my statement with the understanding that it was to be an endorsement of what he has said. We have worked in close cooperation with the War Department and he has gone into considerable more detail than I have, but he has expressed our thoughts in connection with the matter.

Mr. LANHAM. Thank you, sir. We appreciate that cooperation. We have had indications of it from those who have appeared from the Patent Research Division of the Army and Navy before this committee on several occasions.

STATEMENT OF CONDER C. HENRY, ASSISTANT COMMISSIONER OF PATENTS, DEPARTMENT OF COMMERCE

Mr. LANHAM. We have with us this morning, Mr. Henry, who is the Assistant Commissioner of Patents, and we will be very glad to hear from him.

Mr. HENRY. Mr. Chairman and gentlemen of the committee, I am authorized to speak officially only with respect to the bill as it was originally amended.

The Patent Office has not given any of the various recent amendments to the bill any consideration whatever—any official consideration—as amended today by Colonel Patterson. The Patent Office views the bill as it was originally presented by Colonel Patterson as being primarily a procurement matter and not involving the administration of patent law; that part of the patent laws administered by the Patent Office. The Patent Office has no information as to the necessity for this bill. We are perfectly willing to abide by the decision of the Army and the Navy that the bill is necessary. We believe that it is necessary and, therefore, we subscribe to the bill.

That will terminate my official statement, Mr. Chairman.

Mr. LANHAM. Of course, I feel sure that you as an individual and as a representative of the Patent Office are very anxious that any emergency legislation that may be enacted will not in any way inter-

fere with the permanent operation of our patent system which we have had for a century and a half.

Mr. HENRY. Yes, sir. I cannot express myself too strongly on that, Mr. Chairman.

I think not only is the time inopportune to sponsor any permanent amendments to the patent laws, because of the war conditions, but also the President has appointed a Patent Planning Commission composed of eminent men of the country, the Chairman of which is Dr. Kettering, which is now engaged in the task of studying what amendments, if any, are to be made to the permanent system of patent laws under which this country has prospered and upon which the Army and the Navy are relying insofar as inventions are concerned to win the war.

Mr. LANHAM. We are glad to have had your statement.

Mr. HENRY. I regard this as an inventive type of warfare, both as regards the instruments employed and the tactics with which they are used; and unless we can invent faster than the Axis Powers, to meet and overcome that type of warfare, we run a grave risk, in my opinion, of not winning the war at all, and I think it is no time to consider any permanent amendments to the patent system.

Mr. LANHAM. Mr. Henry, there have been indications in the hearings that a part of this legislation will have a permanent effect. I believe, if I recall, practically all of it, except sections 1 and 2.

Could you give any information as to what permanent effect the provisions other than those in sections 1 and 2 would have upon our patent system?

Mr. HENRY. I think it would have a beneficial effect, Mr. Chairman.

Mr. LANHAM. Beneficial?

Mr. HENRY. Yes, sir. The proposed amendments to the act of 1910, as amended, simply make the act of 1910, as amended, applicable to subcontractors. I think that that is a step in the right direction, speaking personally, you understand, Mr. Chairman.

Mr. LANHAM. I appreciate that.

Mr. HENRY. My present testimony is my own personal opinion.

Mr. LANHAM. In other words, part of this legislation is designed to have a permanent application and would not, in your judgment, militate against a proper application of our present patent system?

Mr. HENRY. No, sir; I do not think so.

Mr. LANHAM. I assume, of course, that all of you representatives of the Patent Office regard a patent right as a property right and I understand that that has been very definitely so declared by the Supreme Court.

Mr. HENRY. Mr. Chairman, the Supreme Court has consistently and uniformly held that patent rights are property rights, and no Federal court, insofar as I am aware, has ever held otherwise.

I have heard statements made that patents are not property rights, by way of argument, but I have not heard any responsible officer of the Government render an opinion that they were not property rights.

Mr. LANHAM. Any further questions to be asked of Mr. Henry?

Mr. HENRY. It has been brought to my attention that the manner in which I stated that the permanent legislation contained in this bill would make the 1910 act as amended applicable to subcontractors. The manner in which I stated that left the inference that it was not applicable now.

I think it is applicable now and this is permanent legislation merely to clarify that section.

Mr. LANHAM. Have there been any judicial decisions with reference to that particular feature that the act of 1910 as amended in 1918 refers to subcontractors and so forth?

Mr. HENRY. I have never looked up decisions on that, but I am informed there are such decisions.

Mr. LANHAM. But whether there are such decisions or not, the provisions of this bill would merely be in the way of clarification of that, if any uncertainty exists.

Mr. HENRY. If any uncertainty exists, this would clarify the situation.

Mr. LANHAM. Are there any further questions? Thank you very much, Mr. Henry.

Mr. HENRY. Thank you.

Mr. LANHAM. Which one of the three gentlemen whose names appear here for the Department of Justice will go on?

Mr. MOTHERSHEAD. Mr. Chairman, Mr. Kreeger of the Department of Justice has made a study of the bill, the original bill as amended, and he will speak for the Department.

STATEMENT OF D. L. KREEGER, DEPARTMENT OF JUSTICE

Mr. KREEGER. Mr. Chairman and members of the committee, I have a short statement to make on behalf of the Assistant Attorney General, Mr. Shea, concerning this bill, H. R. 7620.

The Department of Justice is in full accord with the measure and with its purposes and objectives. The Department also agrees with the amendments which have been proposed by the War Department's representatives.

Mr. LANHAM. We understand that they are also in accord with the statements of Mr. Chappell and are quite in accord with the opinions of the Navy Department as expressed.

Mr. KREEGER. Entirely so, sir.

The Department of Justice respectfully urges that favorable consideration be given to the measure.

Mr. LANHAM. Pardon me again. May I inquire here if that is not also true with reference to the Maritime Commission? Is there anyone who can indicate that?

(There was no response.)

Mr. LANHAM. At least we have heard nothing to the contrary from the Maritime Commission and I assume that they were notified, were they not, Mr. Clerk?

The CLERK. No, sir.

Mr. LANHAM. They were not?

The CLERK. Not directly, except through the Congressional Record.

Mr. LANHAM. I feel sure that they would be in accord with it.

The CLERK. The War Production Board received a notice.

Mr. LANHAM. The War Production Board was notified.

Mr. KREEGER. Mr. Chairman, there were two suggestions which were made before this committee yesterday morning on which we should like to be heard briefly. One was that in suits brought against the United States under section 2 of this bill, the defense that the patent

sued upon was invalid should be denied to the Government. Now, the Department of Justice believes that any such limitation upon the Government's defenses would not only be inconsistent with the essential purpose underlying this bill, but would run counter to the tradition in all condemnation and eminent domain cases.

Mr. LANHAM. May I interpose this question there, Mr. Kreeger?

Mr. KREEGER. Yes, sir.

Mr. LANHAM. In former litigation with reference to patents and patent rights, has the Government had the right and the privilege of attacking the validity of the patents?

Mr. KREEGER. Yes, sir. The present right to sue Government for compensation for the use of a patented invention is, of course, based on the 1910 act as amended, and that act specifically entitles the Government to raise any defense which a defendant in a patent infringemen suit could raise.

Mr. LANHAM. Then the provisions of this bill would make no change in that regard in the law as it now exists?

Mr. KREEGER. That is exactly right, sir. The wording, as a matter of fact, is virtually identical with the 1910 act as amended, and that is that the Government shall be entitled to all of the defenses of a defendant in a patent infringement suit under title 60 of the Revised Statutes. In point of fact, the theory of the two measures, that is, the 1910 act and the bill before this committee, is essentially the same. They are both based upon the rights and powers of the Government under eminent domain. The 1910 act as amended recognizes the right of the Government to show that the patent upon which suit is brought for compensation is worthless for one reason or another.

The Government should be entitled to the same defense under the present bill.

Mr. LANHAM. The essential difference in this bill is that, as I believe was pointed out by Mr. Chappell, with reference to license concerning patents.

Mr. KREEGER. That is right. The whole purpose of this measure is to extend the provisions and scope of the 1910 act to situations in which there has been licensing. Of course, the fact that the licensee is estopped to plead the validity of the patent should not bind the Government, which has never consented to the terms of that license and had nothing to do with fixing the terms. As a matter of fact, whenever suit is brought under this act, the Government has already found by hypothesis that the royalty provision in the license is unreasonable and has ordered the licensee not to make the payment thereunder, but instead, to pay some other sum which is deemed reasonable and fair.

Mr. LANHAM. I wonder if by reason of the fact that present conditions could not be anticipated, that this particular feature was not included in the act when it was amended in 1918.

Mr. KREEGER. That is entirely possible, sir. Certainly the absence of the voluntary reductions in royalty granted by some patent owners even in this bill before your committee, as testified by the War and Navy representatives, would show that it is generally recognized that the proposed procedure would be a fair one.

The other suggestion, Mr. Chairman and members of the committee, which we would like to refer to very briefly, is that the district

court be given concurrent jurisdiction of suits against the Government.

Now, under the present form of the bill, a suit could be brought only in the Court of Claims, and that follows the jurisdictional lines of the 1910 act as amended.

We feel that that should be preserved and that the suggestion about concurrent jurisdiction should be rejected.

The Court of Claims has now had a considerable body of experience in suits against the Government, based upon use and manufacture of patented inventions.

Mr. LANHAM. As I understand, Mr. Kreeger, the basis for that suggestion which was made, I believe, by Mr. Burgess and Mr. Middleton, was that there might be so many of these suits that the docket would get so congested that there would be great delay in the trial of those various cases.

Mr. KREEGER. Yes, Mr. Chairman.

Mr. LANHAM. What is your prediction with reference to that; what is your opinion?

Mr. KREEGER. Well, of course, the representatives of the War and Navy Departments are best qualified to anticipate as to the number of cases that might arise.

I would say that upon the basis of their statements, the percentage could be expected to be a small one. They recognize that the majority of licenses will be fair and it will be a rare case, or shall I say the minority of cases, which will come under this bill. Furthermore, the indications which we have received are that the business of the Court of Claims is generally current, and tends not be be as great during this period of war as it was heretofore.

Mr. LANHAM. Is it not also likely, or true, that by reason of the patriotic spirit and purposes of practically every manufacturer and owner of patent rights, that they will heartily concur in such agreements as they may make with the War Department and with the Navy Department and that the number of suits may be very greatly reduced thereby?

Mr. KREEGER. I think that is one of the best answers to the question, coupled with the express power of the Government to make settlement of claims against it, which we assume will be exercised in a reasonable manner. For that reason we feel in the Department of Justice that jurisdiction should be vested exclusively in the Court of Claims as is now provided in Mr. Kramer's bill.

Mr. LANHAM. Of course, if there be such a multiplicity of suits that there would be undue or unreasonable delay, there could be a modification of the act by amendment to take care of that situation later.

Mr. KREEGER. There could, or possibly it could be taken care of by expanding the number of commissioners, or in some other manner, to expedite consideration in the Court of Claims.

Mr. HOLLAND. If I understood rightly the statements on yesterday, one of the witnesses said that suit might be brought in local courts throughout the land.

Mr. KREEGER. No, sir. I believe that under the 1910 act, as amended in 1918, the only forum which has jurisdiction of suits against the Government for the use of patented inventions by the Government or by its contractors, is the Court of Claims. The district courts have no jurisdiction.

Mr. HOLLAND. The suggestion yesterday or the expression used yesterday was in local courts in any city.

Mr. KREEGER. Perhaps it did go further than I understood; but I understood the suggestion was that the Federal district courts be given concurrent jurisdiction so that claimants could sue either in the Court of Claims or the Federal district court in which they resided, and it is that suggestion to which we are directing our comments.

Mr. LANHAM. You have no special criticism, have you, of the provisions of the law of 1910 as amended with reference to the Court of Claims having jurisdiction?

Mr. KREEGER. No, sir; quite the contrary. It has been very satisfactory.

That concludes my statement, Mr. Chairman.

Mr. LANHAM. Thank you very much, Mr. Kreeger.

It is now 20 minutes of 12. We are going to have further hearings. We have Mr. Fenning present whom we will hear in the morning, and Mr. Emery.

And we have a number of letters here which we will include in the record. That is the list of witnesses so far as I am advised, who want to be heard.

Certain of these letters evidently should be placed in the record, and we will go through these letters, and with the permission of the committe, insert those that are appropriate and pertinent to the legislation.

We will stand adjourned until 10:30 o'clock tomorrow morning.

(Thereupon, at 11:43 a. m., the committee adjourned until 10:30 a. m. the following morning.)

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

THURSDAY, OCTOBER 15, 1942

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PATENTS,
Washington, D. C.

The committee met, pursuant to adjournment, at 10:30 a. m., in the hearing room of the House Committee on Rivers and Harbors, New House Office Building, Hon. Fritz G. Lanham presiding.

Mr. LANHAM. The committee will please be in order. We will insert at this point in the record two communications, one under date of October 9, and one under date of October 15, each from Mr. Chester I. Davis, chairman of the Committee on Legislation, Patent Section, American Bar Association.

(The letters above referred to are as follows:)

AMERICAN BAR ASSOCIATION,
SECTION OF PATENT, TRADE-MARK AND COPYRIGHT LAW,
Washington, D. C., October 9, 1942.

Re patent section—American Bar Association.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

MY DEAR MR. KRAMER: This is to acknowledge your letter of October 3 and thank you for informing me concerning the hearings to be held on October 13 on H. R. 7620.

In view of the fact that this bill has been introduced since the annual meeting of the American Bar Association, the association has not as yet had an opportunity to give the required necessary study of the bill. It is believed, however, that past actions of the American Bar Association on related matters may be of help to the committee.

A resolution submitted to the council of the patent section, American Bar Association, approved by it, and in turn approved by a large majority of the board of governors, was in the following language:

"*Be it further resolved*, That the American Bar Association approves in principle H. R. 6852, insofar as said bill provides means whereby patents and patent licenses may be licensed by the governmental authorities for the duration of the war and in the interest of the war effort."

The above bill relates to compulsory granting of licenses under patents in furtherance of the war effort.

The following resolution expressed the action of the patent section at the annual meeting on August 24-25, 1942, held at Detroit, Mich., and was approved by the house of delegates on August 26.

"The American Bar Association approves in principle H. R. 6828, amending the Property Seizure Act (50 U. S. Code 721), if it be amended to provide for the seizure for war purposes, upon the same terms and conditions as other property, of 'nonexclusive licenses with right to grant sublicenses, or a naked right to grant nonexclusive licenses under patents,' instead of seizure of the patents themselves on the ground that the seizure of such license rights gives to the Government the power to use the inventions and authorize others to use them

for any purpose and to any extent but without depriving the patent owner of the right to use his invention himself."

Another resolution which expressed the action of the section at the meeting in Detroit and likewise approved by the house of delegates was as follows:

"*Resolved*, That the American Bar Association is opposed to any use of patents that impedes the prosecution of the war; that it not only continues to endorse H. R. 6812 granting the Government additional wartime power over patents and providing for just compensation of the patent owner for the use of his property, upon which bill no action has yet been taken by Congress, but it also offers its cooperation in the immediate preparation and submission to Congress of any additional emergency legislation that may be needed."

Respectfully,

CHESTER L. DAVIS,
Chairman, Committee on Legislation, Patent Section,
American Bar Association.

COMMONWEALTH BUILDING,
Washington, D. C., October 15, 1942.

Re Patent section—American Bar Association.

Hon. CHARLES KRAMER,
Chairman, Patents Committee,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Supplementing my letter of October 9 concerning H. R. 7620, I desire to call the attention of the committee to a resolution adopted by the patent section of the American Bar Association at its convention, held at Detroit on August 24–27, 1942.

The resolution is in the following language:

"That the section go on record as approving in any bill before Congress, the inclusion of patents on the same basis, entitled to the same consideration, no greater, no less, than its afforded owners of other types of property."

Respectfully,

CHESTER L. DAVIS,
Chairman, Committee on Legislation, Patent Section,
American Bar Association.

Mr. LANHAM. We shall conclude the hearings this morning and we have to appear before us two witnesses, so each can be expeditious in order to accommodate the other. We are to hear from Mr. Karl Fenning, and from Mr. James A. Emery, general counsel, National Association of Manufacturers.

Mr. Fenning, you may proceed at this time.

STATEMENT OF KARL FENNING, WASHINGTON, D. C., REPRESENTING THE AMERICAN PATENT LAW ASSOCIATION

Mr. FENNING. Mr. Chairman, I have been requested by the board of managers of the American Patent Law Association to read a short communication into the record, if I may.

This, I may say, was prepared under an emergency situation, in view of the bill as introduced in the House, and the various amendments which the War Department have presented to you after its reconsideration, have not been before the American Patent Law Association.

The American Patent Law Association approves Government regulation of royalties to be paid by the Government under patents during the emergency of war conditions.

It further recommends that H. R. 7620 be amended to incorporate the following provisions:

(1) Page 2, lines 3 and 4, cancel "of such fact" and in lines 4 and 5 cancel "in said notice or" and in line 5 after "thereafter," and before the comma, insert "not less than 30 days, within which time a hearing shall be granted if requested."

(2) Page 2, line 8, after "production," and before the comma, insert "and royalty rates applicable to similar inventions."

(3) Page 2, line 20, cancel "written notice" and insert "The order." Line 22, change "two" to "five."

(4) Page 3, line 9, after "production," and before the period, insert "and royalty rates applicable to similar inventions."

(5) Page 3, line 10, after "may" [illegible] "only."

Lines 11 to 13, cancel "pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise," and substitute in place thereof "availed of by a licensee in a suit for recovery of unpaid royalties."

(6) Page 4, line 11, cancel "if already paid by it to the licensee," And substitute in place thereof "for payment made by it to the licensee after the effective date of the order provided by section 1 hereof."

Mr. LANHAM. Those are the only revisions requested?

Mr. FENNING. Those are the only revisions requested.

Reasons for the proposed revisions:

(1) This proposed revision requires that the licensee be served with notice in advance of the contemplated reduction of royalty so as to afford opportunity for negotiations, and further requires that the order fixing the new rate of royalty shall not be entered in less than 30 days after the date of the notice.

Mr. LANHAM. You mean by that, that the different rate of royalty payments would not become effective until 30 days had elapsed?

Mr. FENNING. If there is an agreement, then, of course, there is an agreement. If there is not an agreement, then we are making the suggestion that the order be not effective until after 30 days, not after hearing, but after notice.

It is to be effective within 5 days after the order.

Mr. LANHAM. What is the reason for the elimination "of such fact." Is it surplusage?

Mr. FENNING. No; because it here says "notice of such fact." Notice of such fact. Now, it is not a notice of a reduction, but it is a notice of intention to reduce and the reduction is made by a subsequent order, at least, as the section is redrawn, as I understand it. In other words, a notice is given that you are going to reduce and then the order makes the reduction.

Then revision (2) requires that royalty rates applicable to similar inventions be taken into consideration in determining what is fair and just as well as the conditions of war-time production.

We have inserted that they shall take into consideration the royalty rates applicable to similar inventions and as well as war conditions.

Mr. LANHAM. The rates will depend somewhat upon quantity production.

Mr. FENNING. Yes; the war-time condition is left in, but this also should be considered so that similar inventions shall be treated similarly.

And, that is also with respect to the revision No. 4 which makes the same insertion.

Proposed revision 3 allows 5 days before the order becomes effective to take into consideration mailing time to the Pacific coast, rather than 2 days, in bill as drawn.

(5) Proposed revision No. 5 restricts the defenses available to the United States in a suit in the Court of Claims to those which can be used by a licensee in a suit for recovery of unpaid royalties. In the suit contemplated by this bill the Government steps into the shoes of the licensee in defending for nonpayment of stipulated royalties and should be in no better position with respect to available defenses than such licensee.

Mr. LANHAM. Well, how about the matter of attacking the validity of the patent which the licensee cannot do?

Mr. FENNING. No, the licensee cannot do that.

Mr. LANHAM. I say, no licensee can. Do you think that the Government should be restricted in matters of this character, in wartimes, from attacking the validity of the patents? It would have that right in the original owner against the original owner, would it not?

Mr. FENNING. If there were no license agreement.

Mr. LANHAM. Yes.

Mr. FENNING. But here the Government goes to a manufacturer and says, "You have a license. We are going to restrict the license, and we are going to pay you some royalty. We are going to let you pay the inventor some royalty." Therefore, the Government in effect says that the Government is going to take the license. Now, if they are going to take the license, they would be in the same position as any other licensee, and that is what our amendment is doing here.

Mr. LANHAM. How would the Government be able to reduce the royalty rates if it is restricted to such defenses as a licensee might have against the owners?

Mr. FENNING. The right is given by this, under this bill, because of war conditions.

Now, to reduce the royalty, is the right to destroy, and does not have anything to do with war conditions. That is merely saying, "We are not going to pay you at all."

Now, the Government here, the whole purpose of this statute is not to say that the Government will not pay anything, will not allow any royalty, but is to say that the Government will allow a lesser royalty.

Now, if it allows a lesser royalty, then it should not be allowed to reduce that royalty to zero, else that can be done immediately this bill passes.

Mr. LANHAM. Even in the face of the invalidity of the title?

Mr. FENNING. No; for this reason: If that provision is not in here, if that limitation of defense is not in here, every purchasing officer of the Government, the day after this bill passes, may write a letter to every manufacturer and say: "You can pay nothing in royalties." Every inventor, every patentee, will be relegated to the Court of Claims to sue after the war is over.

Mr. LANHAM. Well, let me ask you——

Mr. FENNING. Here the Government is coming in and saying, You have got a license. It has been negotiated. The patent must be valid or you as a manufacturer would not be paying license fees under it. Now, we are going to step into your shoes as licensee,

and if it steps in as licensee, into the licensee's shoes, and pays or authorizes the payment of some royalty, then it is a licensee.

Mr. LANHAM. Well now, I understood the testimony of Mr. Henry yesterday to be that with reference to the provisions of this bill which are designed to be permanent, that the Patent Office had no objection to it.

Mr. FENNING. Well, this is not a Patent Office matter. Mr. Henry's statement, as I understood it was, so far as the operations of the Patent Office are concerned, it has no objection, because this particular thing does not affect the Patent Office. It affects the purchasing agencies only and affects the Court of Claims. The matter of defense is not a matter that the Patent Office ever is concerned with, and this bill, as it stands, will have no effect on any one within the Patent Office; it does not even say that the matter shall be secret; it does not say that this order will have to be recorded in the Patent Office.

Mr. LANHAM. Of course, my inquiry was directed to the solicitude of the Patent Office, which it necessarily has with reference to the preservation of our patent system.

Mr. FENNING. I may have misunderstood Mr. Henry, but my understanding of Mr. Henry's statement was that so far as the Patent Office is concerned, it sees nothing in here which will interfere with the Patent Office as such. I may be wrong about it.

Mr. LANHAM. The last provision eliminates—this is section 4, page 4, line 11.

Mr. FENNING. This eliminates the possibility of the Government recovering from the licensee for royalties already paid over to the licensor. The redetermination of royalty rates should not be retroactive to a date prior to the effective date of the order and any revision should be limited to payments made after that date.

Mr. LANHAM. What about that provision in respect to the further suggested amendments made yesterday by the War Department with reference to renegotiations, with reference to renegotiations of contracts?

Mr. FENNING. This has no effect, as I understand it, on renegotiation of contracts. This bill does not have anything to do with the contracts which the Government has, so far as renegotiation is concerned. This makes it possible for the Government to substitute itself in place of one of the contractors, not in a contract with the Government, but in the contract which that contractor has with the patentee.

Mr. LANHAM. Well, if it were subjected to the situation of the licensee with all of the limitations upon the licensee under existing law, why, this whole act would be inoperative, would it not?

Mr. FENNING. Oh, no; not at all.

The question to be determined, so far as this act is concerned, is how much royalty.

Mr. LANHAM. But, that is determined in the original contract between the owner of the patent and the licensee and the licensee cannot dispute that, and if the Government has no further authority than the licensee, the Government in court could not dispute it or alter it.

Mr. FENNING. This bill specifically gives the Government the right to reduce that; to renegotiate the license contract or to take over that contract.

Mr. LANHAM. I appreciate that.

Mr. FENNING. Now, when the Government takes over that contract, then under this bill, the Government is given authority to reduce that royalty and in the suit in the Court of Claims, the Court of Claims must determine what is the reasonable royalty, or not reasonable, as the term is used here—the fair and just royalty. The licensee cannot say he should not pay any royalty; he could not say, "Your patent is invalid," because he admits it.

Now, the Government takes the place of the licensees and it should not be allowed to do the thing which it could do as this bill now stands.

Mr. LANHAM. But, the War Department and the Navy Department recognize the patent right as a property right. Is it not an assumption that they are going to be unduly drastic in reducing royalties to zero, under the operation of this bill?

Mr. FENNING. Remember the words "if any" appear twice in section 1. That is, it now may say what royalties "if any."

Mr. LANHAM. I imagine that that has to do more with the validity of the patent than it does with a right under it.

Mr. FENNING. It says royalty. It does not say anything about validity. It says royalty. Nothing in this whole bill has anything to do with validity, excepting the defense which is given to the Government, and that is done by—I almost said by innuendo—but by indirection.

Mr. LANHAM. I do not know whether you get exactly what I mean. If I am incorrect in my assumptions, I wish to be corrected. I understand that as against the owner of a patent, the Government in litigation now may attack the validity of that patent. Is that correct?

Mr. FENNING. If the Government has no contract with the owner.

Mr. LANHAM. I understand; but the Government may attack its validity?

Mr. FENNING. It does regularly attack the validity.

Mr. LANHAM. Well, now, if it is placed in litigation under this act, in the position of the licensee, and the licensee cannot attack the validity of the patent, why then the Government, though they are materially concerned in the matter, cannot attack the validity of the patent.

Mr. FENNING. That is quite right.

Mr. LANHAM. And even if the the patent were invalid the Government would have to go ahead and pay royalty rates?

Mr. FENNING. Yes, sir; royalty, and it should, because it is not saying at the time it reduces the royalty, it is not saying either to the manufacturer or to the inventor, the owner of the patent, "We won't pay any attention to your patent. Your patent is invalid." We are saying to him, "We are going to pay a royalty."

Mr. LANHAM. I am just assuming that the inclusion of the words "if any" was predicated upon the statement that I made with reference to the position of the licensee.

Mr. FENNING. So far as I know "if any" is put in for the purpose of making it possible for an order to reduce the royalty to zero.

Mr. LANHAM. There is no intention, as I understand it, to do that, and I think that that ought to be clearly expressed in these hearings in order that the legislative intent may be known—for the Government to requisition patents, is there?

Mr. FENNING. This makes it possible and, of course, the 1910 and 1918 acts do exactly that. This makes it possible when a contract has already been entered into between the parties.

Mr. LANHAM. Operation under the 1918 act has been rather satisfactory, has it not? I understand that there has been practically no criticism.

Mr. FENNING. I beg to differ with you. If you will look at the literature on the subject you will find very vigorous and considerable opposition to it. It is generally said, I think, that one might just as well not sue the Government. Recoveries have been few and far between.

Mr. LANHAM. And the purpose of this particular measure, as I understand it, is simply to take care of deficiencies in the 1918 act and to make it applicable to situations which are not included in the act as it now exists.

Mr. FENNING. I would not say that, because only one section refers to the 1918 act, and that section specifically, especially in view of the new amendment which the War Department has brought in——

Mr. LANHAM. Mr. Chappell in his testimony yesterday gave a rather clear explanation of the respects in which this particular act was supposed to meet what was thought to be a deficiency in the 1918 act.

Mr. FENNING. Well, I did not understand that the deficiency of the 1918 act which is to be met goes any further than taking care of subcontractors.

Mr. LANHAM. Subcontractors?

Mr. FENNING. That is not involved with the license fees.

Mr. LANHAM. Now, I understand that, but also with reference to the proposition of these licensees and the position of the licensee. At least I so understand his statement.

Mr. FENNING. I did not so understand. I did not follow that. Putting it this way, the 1910 or 1918 act; the 1910 act as amended in 1918, contemplated that the Government says to the inventor, "I will pay no attention to your patent."

Now, this bill, on the contrary, says "I am paying attention to your patent and I will pay you something." The question is how much.

And, all this bill intends to do is to make it possible for the Government to say, "I want to pay you as much as is fair and just now" and secondly to say, "If you sue, you may recover more." There is no intention in this bill to say, "I will not give you anything." On the face of it——

Mr. LANHAM. No; I understand the intention of the act is that it simply is a reduction of the royalty by reason of the great increase in production which, of course, could not have been anticipated and which is due entirely to the war times and a rate which for normal commercial production would be perfectly fair and reasonable would be unreasonable in the magnitude of the present production.

Mr. FENNING. Let me say another thing to you, if I may. What this bill proposes to do is to say to the contractor who has an agreement to pay royalty, "You now have an agreement to pay 10 percent royalty.

You pay only 5 percent royalty for instance, and we will assume the remainder of that royalty."

The inventor sues in the Court of Claims to recover the remainder of that royalty. The Government sets up invalidity. He is given no royalty at all. Cannot the inventor, the next day, sue the contractor who is under contract with him to pay that additional royalty and sue him for that royalty? You are breaking a contract. You are taking away the man's right to his royalty.

Now, if you are going to substitute the Government in the place of one party to the contract, then the Government should be substituted in the same situation that that one party to the contract is. Else, you are merely breaking the contract entirely and saying "You do not have any rights."

Mr. LANHAM. In other words, you think the Government should absolutely be subrogated to such right as the license has and no others?

Mr. FENNING. That is the only way the Government can protect the contractor, because the contractor is subject to this contract.

Mr. LANHAM. You mean the only way it can protect the original contractor as between the patent owner and the licensee.

Mr. FENNING. Yes.

Mr. LANHAM. But, the whole purpose of this as I understand is that as the result of increased production, the Government should be permitted to modify that contract.

Mr. FENNING. Modify it, yes, but not abolish it.

The bill as drawn will say that it might invalidate it, and put that in as a defense, and abolish the contract entirely. And, that I understand is a different situation.

In addition the American Patent Law Association also recommends that the bill be amended to provide that the Government may not collect from the licensee, under a "save harmless" clause, money recovered by the licensor in a suit in the Court of Claims under section 2, because such recovery would in fact be money withheld from the licensee by the Government under section 1.

Possibly a word of explanation is in order. It is not uncommon in Government contracts for a clause to be put in providing that the contractor will save the Government harmless from patent infringements.

Now, here the Government is saying to a contractor, "We will reduce the royalty you must pay. We will substitute ourselves for you and defend you." Under those circumstances, the Government should not include in that contract a provision that if it loses and has to pay additional royalties then the contractor will have to pay it.

That will be what the save harmless clause will mean. In other words, if the Government is to assume the royalty then the Government should not, if it loses the suit for that royalty, come back on the contractor who has entered into the contract on a lower basis.

That is the purpose of putting this in.

The American Patent Law Association further says:

"It is appreciated that the present bill, in giving authority for action to each head of a department or agency, may be productive of nonuniformity in the treatment of different patented inventions, or even the same patented invention if embodied in devices used by a plurality of the departments or agencies. Furthermore, the fact that the determination of reasonable royalties may be delegated without limitation to subordinates is looked upon with considerable apprehension.

It would be decidedly preferable if an interdepartmental board were set up to determine the royalty to be paid under the principle contemplated by H. R. 7620 and it is recommended that such interdepartmental board be established."

Mr. LANHAM. Have you any recommendations as to the personnel of such board?

Mr. FENNING. The Patent Law Association in the emergency went no further than that. If I may say a word for myself now and inasmuch as that particular thing is uppermost, my own impression is that the appropriate scheme of operation would be to allow the contracting officer to send notice to the parties or allow whoever is interested in the contract to send notice to the parties that he thinks the royalty rates should be reduced and set what he thinks should be the reduced rate, and within 30 days thereafter, either party, the contractor, or the owner of the patent, should be allowed to insist on a hearing. That hearing should be before a board, and I would say that the board should be made up, possibly, of the Commissioner of Patents, or a representative of the Patent Office, as chairman; of a representative of the War Department; of a representative of the Navy Department, of the Maritime Commission, and some other purchasing department, possibly the Department of Justice—that a 5-man board be set up, and require that board to give a hearing and determine what shall be the reduced royalty.

In the meantime, as soon as the notice is given, let all actions under the royalty be suspended; that is, let no royalty be paid, and let matters stand in that position at the day of the notice; then let the board make the report within the 30-day period, and issue the order.

Let that order be effective as of the date of the original notice and give the right to have that board reviewed by a court. I should say, in view of the situation in the Court of Claims, after the past war, that that review might better be in a Federal court wherever the owner of the patent resides, because the question of the royalty will be based largely on the character of the manufacture: the testimony with respect to the royalty should preferably be taken where those who have done the manufacturing live, rather than bring everybody to Washington.

After the last war the Court of Claims was pretty well clogged with its work. There are pending in the Court of Claims at the present time, I understand, suits with respect to alleged Government infringements during the last World War which have not yet been terminated, and it is rather hard for a man to wait as long as that to get money, if he is going to get it. The district courts are operating under the new Rules of Civil Procedure so that they must act promptly, and they do act promptly. The Court of Claims, because of its make-up and statutory authority does not work under the new Rules of Civil Procedure. It works about the way the Federal courts worked in 1811, and for that reason, among others, it is very much clogged. I think it is preferable to have the matter turned over to the courts.

That board could be provided, and it seems to me there would be no losses anywhere. It would make it possible to at least have the inventor feel that he has had a fair deal rather than to have a letter written to the inventor by some one fairly well down the line in one of the departments saying, "You won't get so much royalty as you did," without giving him a hearing or anything of that sort.

Section 2 provides for a suit to be brought in the Court of Claims. It does not say when the suit may be brought.

The Court of Claims is somewhat peculiar in its jurisdiction and in its activities with respect to patent infringement. If the Government is continually infringing a patent, the Court of Claims will give no recovery for anything which occurs after the day the bill is filed in the Court of Claims. There is a general statute of 6 years' limitation, so that if there is continuing infringement, there must be a new suit filed at least every 6 years, or a supplemental suit filed. That all means, as I understand it, that if the order is issued under this bill and the royalty reduced, and the owner of a patent files a suit the next day in the Court of Claims, he will recover, if he recovers anything, 1 day's royalty. He will have to wait 6 years, or some subsequent time, to file another suit to recover his second quantity of royalty.

There is nothing here provided that the Court of Claims in the judgment shall make a finding as to the new royalty, and providing that that royalty shall be recovered throughout the war or during the time of activity. Nor is there anything here limiting the time when a suit should be filed.

It seems to me that it would be desirable to put a limitation in here as is put later in the bill that the suit should be filed within 6 months after the end of the war, or give the patentee the right to sue within some definite time after the war is over so that he would not be bothered with suits during the war.

Mr. LANHAM. Do you not anticipate, Mr. Fenning, that most of these contracts will be determined by agreement and that in view of the fact that these gentlemen who have appeared before us have stated that the greater majority of those who are called in to discuss these matters are quite willing to enter into an agreement with the Government, that these suits will be very greatly reduced?

Mr. FENNING. I do not think so, for this reason: Here you are definitely saying to a man, "You do not have to agree. You will get some royalty anyhow and you can sue for more later on."

Now, during war, the psychology of the inventor is such, as it is with the most of the rest of us, that we want to do anything we can to help win the war. Let the matter go. But after the war is over, they will say, "Well, now, what can I do. How can I get some money. Times are hard." They will reserve this right to sue later on and sue.

During the war there is very little litigation initiated in the Court of Claims on Government activities. They wait until the war is over and nobody will say they are unpatriotic and then sue.

Now, if you pass this particular bill, it seems to me that most of the inventors, most of the men who own patents, will say, "Why should I negotiate anything with you. I have everything to lose. You fix what you say is a reasonable royalty and let it run along while the war is on and then I will see you fellows later on."

Mr. LANHAM. Of course they are going to get a great deal more money on account of increased production than they would get from their normal commercial pursuits in time of peace and if they enter into a legal agreement with reference to royalty, they will get more than they would have received. Do you not think that those agreements will be more or less conclusive and binding in the Court of Claims?

Mr. FENNING. If they enter into such an agreement, but I think

this bill which gives the Government the authority to fix the royalty will have two results. First, it is going to stop negotiations. They will say, "Fix what you want. You are going to do it anyhow, so fix it."

In the second place, the inventors will say, "Why bother about it now. There is a war on. I am busy. I am making things. You fix what royalty you think is reasonable and I will have to accept it for the time being and then we can straighten it out later." Now, if that is not so, if there are only going to be one or two such cases, I do not think it is worth the time of any of us attending these hearings to fix one or two cases. If we are not doing something which is worth while, then it does not seem to me it makes much difference what sort of a bill we write, but if we are writing something which is going to be worth while, going to amount to something, do something, I do not think we should not say that there will only be a few people and that it does not make any difference. We ought to try to fix it right just for the few. You may find that the few, instead of 2, is going to be 2,000—it is entirely conceivable—because there is a great deal of invention involved in the war.

You understand, of course, that one thing which must be kept in mind is this: We have gotten beyond the days when we could fight a war as our ancestors did in the Revolution. This is a war carried on with instruments produced by inventors. The entire war industry is tied up with inventions. What we have got to do, as I see it, is, as Mr. Henry suggested yesterday, and as you have suggested, we have got to keep the patent system alive. We have got to give more impetus to a man to prepare him to invent. We have got to do everything we can to build up the patent system at this time. We should give him every possible conceivable right we can think of to make his invention worth while.

Therefore, it seems to me that we should make it possible for him to feel, when a rate is reduced, that he has had a hearing, and not make it possible when the rate is reduced for him to feel, "Well, I will take this now. Later on I will try to get justice," because at the present one of the great objections of business people at the present time is that they have to do too much negotiating. They cannot spend enough time in actual manufacturing, producings goods, and these delays until after the war seems to me a highly desirable thing.

Now, section 3 provides that a claim may be settled, but it says it may be settled only before suit.

Now, I do not think that that is sufficient. I see no reason that merely because a man sues in the Court of Claims, the suit should not be compromised. Many suits in the Federal courts and in other courts are settled after suit is brought. Then the people get down really to business, and they think they have got to do something. So I would suggest that on page 3, line 21, after "instituted" the words "or in settlement thereof" be inserted——

Mr. LANHAM. "Or in settlement thereof"?

Mr. FENNING. Yes. I do not know how many is going to be available for this sort of settlement. The settlement may be 3 years after the appropriations have been made for purchasing the individual goods which were involved. The fiscal year having

terminated, money being no longer available under that contract, I do not know where the money is going to come from to settle these particular suits, and I think it might be well at the end of section 4 to provide that payment of, or settlement may be made from any appropriation available for similar goods, or something of that sort, or from any appropriation in the department, so that when a man gets a settlement he gets some money, rather than a verbal settlement, and not have to come to Congress and ask Congress for an appropriation to pay these individual settlements.

I suggested to you that it is not uncommon in Government contracts for the contracting officer to put in a so-called hold-harmless clause.

As I understand it, this bill, and the act of 1910 as amended in 1918, contemplate that the Government believes that when it infringes a patent it should pay the inventor for that patent.

I think that is the basis of the entire thing. That, as I see it, that is the instructions Congress gives to the purchasing agency.

Now, not infrequently—in fact at one time by a general order of the Comptroller General, as I understand it, or some official who has to do with purchasing—a contract read this way—the Government gives a man a contract to furnish what it needs, and then instead of saying if the thing you give us infringes a patent, the patentee can sue us in the Court of Claims, and recover, they say to the contractor, "You must put in here a provision saying, although you furnish the thing to us, we use it, and we get it, you must hold the Government harmless, against a suit for patent infringement, with respect to the very thing which the Government has ordered."

In one instance, a man was given an order for a device. He was required to hold the Government harmless with respect to that device—with respect to the patent infringement on that device, and he was required to deposit with the Government a bond which would run for 17 years, for the full amount of his contract price, meaning that for 17 years he would have no use for his money. I may say, that in that instance, the manufacturer did not accept the bid from the Government, and the Government did not get the particular thing which it needed.

It is not an exceptional thing for a man to manufacture something for the Government with a hold-harmless clause, the contract to be settled, everything be given to him; the Government to use the goods, and the man to get his money and go on about his business, and thereafter, the patentee files suit in the Court of Claims against the Government for infringement with respect to that particular device.

There is a clause in the contract saying that the manufacturer must hold the Government harmless if there is a patent infringement suit.

Therefore, the man thinks that that is a suit really against him, and not against the Government. He comes to the Court of Claims and says, "I would like to intervene and take care of that defense." The Court of Claims says, "No; we have no jurisdiction over you. We have jurisdiction over the Government. The Government must carry out that defense."

The Department of Justice generally allows the manufacturer to participate in the defense, if he wishes to do so, but the Government controls that defense.

At the end of the suit if judgment is entered in the Court of Claims against the United States Government for a certain amount of money—remember the contract has already been settled years ago—then the Government goes to the contractor and says, "You pay us this judgment in the Court of Claims and also pay us for our expenses in conducting the suit." And, if the man does not do so he is sued by the Federal Government and the Federal courts say, "You agreed to do that, and, therefore, the money must be paid by you."

Now, to my mind, that procedure is entirely contrary to the instruction, the intent of Congress in saying that it wants to be responsible for any infringement of the patent which it infringes.

For that reason I should like to see added to the end of section 6 something to this effect.

And no contract for manufacture, use, sale, or disposition for the United States shall contain any clause holding the Government harmless for any patent infringement with respect to any matters specifically ordered by the Government.

I think Congress has already instructed or intended to instruct by the 1910 act, its purchasing agents to refrain from such contracts; but the act has been very largely abolished by this hold harmless clause, and I think it should be put in and since you are now amending the 1910 act here, this certainly is an appropriate time to say one reason you are passing this act is that you want to act fairly with such things as patents, the Government wants to pay for what it gets, and I think you ought to insist upon that being done throughout.

I have just one more thing, I think, Mr. Chairman.

I should like to express my horror at what the War Department has presented to you originally as section 9 and now in the second revision of the bill as section 10. That says:

SEC. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

You may remember that the N. R. A. was held unconstitutional by the Supreme Court in ligitation which was conducted by a poultry dealer. It cost him so much that he went bankrupt and went out of business, but he succeeded in having that act held invalid.

If this type of reservation had been in the N. R. A. act, we would still be operating under the N. R. A. act, because that invalidity, by this clause, would not have been effective to any other individual and the Government the next day might have sued the man next door who was still in the poultry business.

Now, if he had had money enough to go to the Supreme Court he might have had that held invalid with respect to him; but if he had not, he might not have had it held invalid in respect to him.

I was brought up with the feeling that we were operating under a Government which believes in equality under the law, and it seems to me that that statement which says that if a section of this act is invalid with respect to one person, it shall not be invalid with respect to another person, does not promote equality under the law.

I feel personally that if this type of clause ever gets to the Supreme Court the Supreme Court will say that that section itself is invalid and consequently the entire statute is invalid.

For many years Congress found it sufficient to put in statutes a statement that if one section of the statute is held invalid, it shall not affect the other sections.

I think no one has any particular objection to saying that if one section is held invalid it will not affect other sections. But to say that when invalid with respect to one person or one set of circumstances, that it shall not be invalid with respect to the same person with respect to another set of circumstances or with respect to another person in the same set of circumstances, you are doing a thing which to my mind is breaking down our entire system of government.

Mr. LANHAM. We thank you very much.

Mr. HEIDINGER. If we strike out the last two lines of that section, I assume, in connection with wour suggestion, that that might do it.

Mr. FENNING. Yes; that would do it.

STATEMENT OF CONDER C. HENRY, ASSISTANT COMMISSIONER OF OF PATENTS, DEPARTMENT OF COMMERCE—Resumed

Mr. HENRY. Mr. Chairman, may I be heard for a moment, please?

Mr. LANHAM. Mr. Henry.

Mr. HENRY. Some question was raised as to what I said with respect to the last paragraph of section 2. That is the section which gives the Government the right to raise all defenses in a suit against the licensee.

I would like to call the attention of the committee to the fact that section 2 is temporary and not permanent legislation. If it were permanent legislation, I would most strenuously object to it, because I think that the Government in a suit should not be placed in any better position than a private citizen.

I would like to supplement that statement with this remark——

Mr. LANHAM. That is also true of section 1, as I understand.

Mr. HENRY. Section 1 and section 2.

This bill was designed primarily as war time legislation to meet the needs of the Army and the Navy. For that reason the Patent Office subscribed to the bill as it was originally amended by Colonel Patterson as he discussed it on the first day of this hearing.

I think that this bill should be limited to the duration of the war and 6 months thereafter, in all respects, except for section 6, which relates to the act of 1910. Therefore, I suggest that in order that there will be no uncertainty this is wartime legislation, considered hastily and not considered by the Patent Planning Commission, that on page 5, in line 8, the bill be amended as follows:

Strike out the figures "1 and 2" and before the word "Sections" insert the word "All"; and after the word "Act," insert "except section 6."

I do not agree with Mr. Fenning that section 6 should now be amended permanently in any other respect.

Mr. LANHAM. Well now, are you speaking of section 6 as presented in the modified bill?

Mr. HENRY. I have no objection to section 6 as it was finally rewritten. I do object to any further amendment to it as suggested by

Mr. Fenning. I think there is a great deal of merit in what he had to say, but I think the matter is so debatable that it would and ought to require serious study by the body constituted by the President to do just that work.

Mr. LANHAM. We will now have the pleasure of hearing——

Mr. FENNING. May I say one word, please, Mr. Chairman?

Mr. LANHAM. Yes, Mr. Fenning. You were through, Mr. Henry?

Mr. HENRY. I have just one further word, if you please, Mr. Lanham.

I heartily agree with Mr. Fenning as to what is now section 10. That, it seems to me, would lead, if enacted into law to a multitude of suits involving the same question of law.

Mr. LANHAM. Personally I was impressed with what Mr. Fenning said in regard to that.

Mr. HENRY. And I think it is incumbent upon every Government officer to protect the citizen in his rights and never to compel the citizen to defend himself against an unnecessary and unauthorized act of Government.

And, therefore, I would suggest that section 10 be amended to read as follows:

If any of the provisions of this Act shall be held invalid, the validity of the remainder of this Act shall not be affected thereby.

[illegible] in accordance with the general enactments

[illegible] sir. That is, if one section is invalid, the rest [illegible] that section reads now, if A is sued and the act is held unconstitutional, B can be sued, and C can be sued; and D can be sued. There would be no stability in the law.

Thank you, Mr. Chairman.

Mr. LANHAM. Thank you, Mr. Henry.

Mr. FENNING. If I may be heard for just a moment.

Mr. LANHAM. Yes.

Mr. FENNING. Section 1 refers to the head of a Government department and agency.

I do not know whether anybody knows what a Government agency is.

Mr. LANHAM. You recall my statement.

Mr. FENNING. I think that should be defined or eliminated, one or the other.

Mr. LANHAM. You recall my statement on that.

Mr. FENNING. You have spoken on that.

Mr. LANHAM. I made reference to that the first day of the hearings.

Mr. FENNING. Yes, sir.

Mr. LANHAM. I thought some clarification was necessary there.

Mr. FENNING. There are a great number of these agencies. The Reconstruction Finance Corporation is organizing little corporations, or additional corporations. For instance, the Rubber Reserve—is that an agency of the Government? It certainly is engaged in a warting activity and should be brought in. Probably it is not an agency of the Government.

But something should be done to straighten that out.

Now, in that connection I would like to call attention to section 7 which defines the type of device on which the royalty is to be paid.

It says "chargeable to or payable by the United States for any supplies, equipment, or materials deliverable to the Government."

I raised the question with respect to a process. If there is a license—and there are many. For instance, let us take the Rubber Reserve Company. There many licensese are process licenses.

This section, without mentioning it, because it does not mention processes, would give no relief with respect to that and it seems to me instead of stopping with these terms, you should add another, "process or method," or should just say "invention."

Certainly there is no reason for saying because you are paying royalties under the process you are bound by the contract.

Mr. LANHAM. I think we should like to hear just a word in that regard from these representatives of the War and Navy Departments, with reference to whether that should be included—in addition to supplies, equipment, and materials, whether we should include "methods and processes."

Would an amendment of that character give you the latitude that would be needed in taking care of every situation?

Mr. CHAPPELL. In my opinion, it is not necessary to amend the act to set forth the right to use processes, because the bill as amended, in section 7, reads, "This act shall apply to all royalties directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or materials delivered to the Government from and after the date of the approval thereof," and that would involve not only payments covering the articles themselves, but any steps in the process of making them, and it seems to me that this is adequate to and is intended to cover any inventions used in getting material for the Government without specifying just what the nature of the invention would be, and includes processes. It could even include a machine used.

Mr. LANHAM. I think it is well to have that statement in the record as showing the intention if questions should arise with reference to it, and I appreciate your statement, Mr. Chappell.

Colonel Patterson, do you have anything to add to what has been said about that?

Colonel PATTERSON. Not at this time. I would like to have Mr. Kreeger speak with regard to the section on separability. That is a legal matter which the Department of Justice is interested in.

STATEMENT OF D. L. KREEGER, DEPARTMENT OF JUSTICE—Resumed

Mr. KREEGER. Mr. Chairman, if I may make a short statement on that.

Mr. LANHAM. Yes, Mr. Kreeger.

Mr. KREEGER. It will be very short.

There are apparently many misconceptions about section 9 as proposed by the War Department. It seems to be regarded in some quarters as being very unusual, and a rather radical provision. Actually it is the stock-separability provision appearing in any number of acts of Congress.

Mr. LANHAM. You mentioned section 10.

Mr. KREEGER. Well, section 10 as renumbered; yes, sir. I refer to the separability provision as proposed by the War Department. It is virtually identical with the separability provision in the Securities

Exchange Act of 1934, the Securities Act of 1933, the Federal Communications Act, and numerous other acts. A provision such as proposed by the War Department has been before the Supreme Court on several recent occasions, and has been recognized specifically as an aid showing the intention of Congress that if the statute cannot constitutionally apply, or is not valid as to any group or class of persons, the remainder of the statute is to continue in effect.

There is a definite value in such a provision to show the courts that Congress does not intend, if one portion of the act is held to be invalid, that the whole act should fall.

Mr. LANHAM. Could you not do that without these last two lines reading:

and the applicability of such provision to other persons or circumstances shall not be affected thereby.

Mr. KREEGER. Well, of course, the separability provision proposed by the War Department is substantially the provision as it has appeared in much important legislation on the statute books for more than 10 or 15 years, and it has been copied out practically verbatim.

Mr. LANHAM. Of course, if it should lead to such an interpretation as Mr. Fenning indicated, it would certainly make for a multiplicity of suits.

Mr. KREEGER. Definitely.

Mr. LANHAM. On matters that are res adjudicata.

Mr. KREEGER. Definitely, but I think the interpretation urged is rather absurd, because it has been before the Supreme Court——

Mr. FENNING. In what case?

Mr. KREEGER. It has been before the Supreme Court on several occasions, and has never been regarded as other than helpful to the courts.

Mr. FENNING. I cannot find any cases.

Mr. KREEGER. It has been before the Supreme Court in several instances. I can supply the citations to the committee, where separability provisions of this nature have been upheld as guides to the congressional intention. (See supplemental statement of Mr. Kreeger in appendix, p. 102.)

Mr. LANHAM. Would not the provision be just as effective without those last two lines?

Mr. KREEGER. It might be, but the question may be raised as to whether Congress intended anything different by a provision that is in part substantially the same and in part different from one which they have enacted previously in the Securities and Exchange Act, and many other statutes.

The fact that it follows the former provision to a certain extent and then stops might possibly raise some question, although I think that the general intention of Congress probably would be as clear.

Mr. LANHAM. Then if they have decided the issue, as you have said, the only question that could be raised would be a question of confirmation of the decisions that they had already rendered.

Mr. KREEGER. That is right; if substantially the same words were used as were before the Court; yes, sir.

STATEMENT OF JAMES A. EMERY, GENERAL COUNSEL, NATIONAL ASSOCIATION OF MANUFACTURERS, WASHINGTON, D. C.

Mr. LANHAM. We now have as our next witness Judge James A. Emery, general counsel for the National Association of Manufacturers. We will be glad to hear from you, Judge Emery.

Mr. EMERY. Mr. Chairman, while I appreciate the Chairman's nomination to the judicial position, I must confess that the title "Judge" has behind it neither executive nomination nor senatorial confirmation, and no hope of either.

Mr. LANHAM. May I say in that regard, Mr. Emery, that the notation that I have here shows Judge James A. Emery.

Sometimes we who serve in a legislative capacity are referred to as judges and to those who have applied that appellation to me, I have been very quick in quoting the Biblical injunction "Judge not that ye be not judged."

So, we will be glad to designate you by the good American term of "Mr. Emery."

Mr. EMERY. Thank you, Mr. Chairman. I appreciate your courtesy, but I realize that members of my profession often acquire that title if they happen to be over 50 and have escaped either disbarment or indictment.

Mr. Chairman, I appear on behalf of the patents committee of the National Association of Manufacturers in company with Mr. George Folk, a patent lawyer of great distinction, and our patent adviser.

We have not been able within the brief time at our disposal, since the measure was introduced, to refer it to our board of directors—a very large board including membership from all parts of the country. We are compelled under the circumstances to present to you the suggestions of the executive committee of the committee on patents which speaks for the association under these circumstances.

I beg to say on their part there is a realization that in the situation which confronts us, measures which otherwise would be in many respects objectionable are justified by the circumstances of the war. We respect the judgment of the military departments in that respect; but we venture to point out that in measures of this kind there is a tendency to act hastily under the pressure of war, to overlook the fact that things creep into the statutes which otherwise would not. We are here confronted, we believe, with suggestions, we feel sure upon mature deliberation the military authorities, will realize deserve correction, not only to do justice to those interested in this matter, but we believe to expedite the objectives which the authorities have in mind.

I want, Mr. Chairman, to say on behalf of our committee, we appreciate the opportunity this committee gives for hearing us during the consideration of this measure, which unfortunately we have not possessed in the other House.

Turning to the measure before you, Mr. Chairman, if I may proceed rapidly in presenting our comments and suggestions to the committee, you will discover that perhaps while I have had no discussion with Mr. Fenning, we are in accord with several of the suggestions he has so ably made and defended.

The first is that the heart of this bill is contained in sections 1 and 5, so far as temporary legislation is concerned.

The remainder are incidental to it.

This bill is aimed, exclusively through section 1, at the adjustment in contracts of patent royalties alleged to be excessive or exorbitant where such royalties arise out of existing private contracts between licensors and licensees; one who is supplying the Government during the war. The proposal is that administrative officers of the Government shall have the authority to determine whether or not such royalties are excessive in the light of wartime conditions and fix what is a reasonable royalty subject, under the provisions of this bill, to a settlement with the licensor or licensee, and before suit, with exclusive jurisdiction in the Court of Claims to determine any difference between the royalty which may be fixed by the administrative official and what the patent owner believes to be fair compensation for the use of his patent.

Now, the first thing that struck us is one which Mr. Fenning has alluded to this morning. I think it not only is fundamental to this measure as a matter both of justice and of practicality, but it is a fundamental principle of administrative law.

In section 1 it is provided, on page 2, that the administrative official who determines that there is excessive royalty operating as a cost in a contract, gives written notice of that fact to the licensor or the licensee and shortly thereafter gives notice of the amount fixed, or he may do it in the original notice.

There is no suggestion here, no assurance, of any opportunity for fair and adequate hearing for the owner whose patent property is to be subject to a "taking," for that, of course, is what a royalty adjustment is in this case.

It must be assumed that where these contracts are in existence, the licensor in accordance with the practice of the business world has protected himself in securing as reasonable license as he could. I am sure this committee will note that it is a practice in the business world for licensees to continually endeavor to secure reductions in royalties as a part of their business activity.

So that as to those contracts that are in existence and operative and a cost element in contracts, the presumption is that it is a fair charge. That is sustained by the presentation made by the military authorities—here.

I did not have the privilege of hearing the Navy, but I did hear the Army presentation in which we were impressed with the fact that there was but a small number of cases to which this bill was expected to apply out of the thousands of patents operating in the United States and the licensees for which are an element in the cost of manufacturing exactly as is the cost of material, supplies, salaries and wages.

So that that is the first point we would urge, Mr. Chairman, that there be an assurance by amendment of section 1 that the officer who is to fix, or the board, which is to fix the royalty alleged to be exorbitant or excessive shall hear the parties, who have not only the greatest interest but the greatest knowledge of the circumstances under which that royalty was fixed.

There is no provision to that effect in the bill today. It is a fundamental principle of administrative law that administrative officers should not make decisions affecting the rights or liberties of citizens without opportunity for hearing.

There is, of course, under the circumstances of war, a taking of property at times where the military forces are in the field or where there is immediate need for military action in defense of the country; but that is not present under circumstances of this proposal.

There is here no reason why an adequate hearing cannot be given.

Mr. LANHAM. In that regard, Mr. Emery, may I inquire if you are in accord with the amendment suggested by Mr. Fenning on page 2, line 5, reading "within a reasonable time thereafter, not less than 30 days, within which time a hearing shall be granted."

Could that time of 30 days be decreased somewhat?

Mr. EMERY. What we want and the fundamental matter which we are concerned with is that there shall be an opportunity for a fair hearing; that the party shall have due notice so that he has a chance to present the facts of his case; so that he may not then under section 3 be presented with an opportunity of entering into an agreement with the Government under the shadow of a predetermination by the officer or board who has fixed the royalty. He is thereby greatly disadvantaged, because that is going to be a very powerful influence in settling any case. Another thing, no action should be taken without a presentation of all the facts before the deciding body.

I think that fundamentally is our conception of the law. Furthermore, I submit that fairness in that regard will greatly expedite the purpose which the military authorities have in mind. If there is a fair adjustment in matters in which there is proof of excess royalties, undoubtedly that will be the basis of the settlement which will be made with the Government. It will minimize litigation and it will vary greatly expedite settlement with the Government where the original adjudication is had under circumstances in which the parties at issue feel that they have had an opportunity to present their case. That is all we ask for.

Next, I want to make an inquiry, Mr. Chairman. Mr. Fenning raised the question with regard to it. We are somewhat troubled by the use of the words "if any."

I did not happen to hear the views which the military authorities expressed as to their own purpose in inserting that phrase. Whether they meant that there were going to be circumstances under which there would be no royalty paid, while the theory of the bill is that there are to be adjustments at all times of so-called excessive or exorbitant but recognized royalties. It presupposes that royalties will be paid.

The introduction of the phrases in here "inventor" or "patent holder" caused me to realize that it might be possible that they had in mind inventors who had no similar rights to those protected by patents. We do not know whether it is confined to that class or not, or whether it implies the suggestion made this morning in the course of the discussion, that the Government is reserving the right in subsequent proceedings to raise an issue as to the validity of the patent. Not merely as it would otherwise do as to the reasonableness of compensation already allowed, or the possible question that

there was no infringement of a patent in the matter at all, which would be an issue quite different from the validity of the patent.

Mr. LANHAM. That inquiry can best be answered by these gentlemen here from the War and Navy Departments.

Mr. EMERY. We have not heard anything on that. We are interested in knowing just what the gentlemen construed that term "if any" to mean, since they have drafted the bill, and we presume they did it with great care and skill. "Every little word has a meaning of its own."

Colonel VANDERWERKER. I think those words can be construed to mean there might be determinations that the Government would feel that it would not pay any royalties. Validity might be one. There might be other reasons. Title, ownership, scope of the claims; validity—any number of things which would all be taken into consideration at the time the determination was made.

Mr. EMERY. Now, that construction you have given, Colonel, would apply more to defenses than to the ordinary person who might have this type of litigation.

Colonel VANDERWERKER. That is true, yes; comparable to those we have in other situations now.

Mr. EMERY. Do you think that it would be equitable to limit the Government defenses to that which, for instance, the contractor or the licensor might have, or the licensee, I should say.

Colonel VANDERWERKER. I do not hold with Mr. Fenning, that the Government is substituted for the licensee and should be limited to his rights. He still remains the licensee. What he pays for the license is determined by the Government rather than by the original license agreement. To that extent only is the Government substituted in his shoes. I do not think the Government becomes the licensee by virtue of its act in fixing a different royalty.

Mr. LANHAM. If the Government were put in the place of the licensee, there would be no opportunity to reduce the royalty, would there?

Colonel VANDERWERKER. Neither reduce the royalty nor challenge the validity of the patent.

Mr. PLAUCHÉ. I am trying to get this thing clear in my mind. Under this bill, if we should limit ourselves to this bill—the Government probably has rights to attack the validity of patents under some other law—but under this bill as I understand it, if a man has a license and the Government should say, "You should reduce that royalty" and then years after it comes up before the Court of Claims and there is urged the validity of this thing, it seems to me that would be inequitable and unfair.

Colonel VANDERWERKER. I should hesitate, Congressman, very much before I would advise the Secretary of War to pay a royalty under a patent that I knew was invalid or had reason to believe was invalid. After all the Secretary is charged with the responsibility of the expenditure of public funds. I would hesitate very decidedly to advise him to pay if I thought that the patent was invalid.

Mr. PLAUCHÉ. This legislation, as I understand it, is strictly for something else. It does not affect the validity of patents. It is stictly for a reduction of royalties, excessive royalties.

Colonel VANDERWERKER. As a matter of fact, I cannot conceive, except in very rare instances, where a licensee would enter into an

agreement with a licensor until he had very carefully considered the question of the validity of the patent he was taking a license under. The chances are very remote that the Government would find invalidity. It could perhaps in rare cases find differently from the licensee in that respect. This may be a matter of opinion. It is a situation, insofar as invalidity is concerned, that I think will rarely come up.

Mr. PLAUCHÉ. That is all I have.

Mr. EMERY. I gather from that statement of the distinguished officer, that validity might be an issue in a rare case, but nevertheless the gentleman reserves the right to raise that issue and to raise it under section 2.

I wanted to call the committee's attention to that rather distinct difference between procedure under this bill, and under the act of 1910 as amended by the act of July 2, 1918.

The presumption in all those cases is that the Government authorizes its contractor or subcontractor to go ahead and produce or use or sell for or on behalf of the Government, so that the Government authorizes an infringement and accepts liability by assuming the obligation for adequate compensation in all cases arising under that act.

This bill, by its title and by the statement heretofore made has as its main purpose, as the title suggests, the adjustment of royalties that are in being by virtue of private contracts previously made between the licensor and the licensee and that is the fundamental matter that is presented to this committee for decision and should be distinguished from the act of 1918 in that regard.

So we emphasize, Mr. Chairman, and we hope the military authorities will give consideration to the fact that in the limited number of cases to which they say this act is applicable, they should realize that the Government stands in a different position from those occupied in the act of 1918; here it is in the shoes of the licensee. It deliberately takes that position. While it is true that it is the sovereign as well as a contractor, and has the authority to regulate its own contracts which, of course, no private person has except to the extent that he can make a bargain, it is standing by virtue of the statement here made and the terms of this bill in the position of the licensee.

The only issue that should arise under the representation heretofore made and described as the basis of this legislation is a determination, a judicial determination as to whether or not the settlement which the Government has made in an adjustment of a royalty is fair compensation or not, and if it holds that it is not fair compensation, a court awards what it conceives to be the difference between just compensation and what the party is already receiving from the Government, that ought to be the sole issue for judicial determination.

If you are going to go into other questions, after you have awarded a royalty by adjustment, have awarded that and left the issue as to further compensation to be determined subsequently in court, if you are going to reserve the issue of the validity of the patent under which you have agreed to royalty—and the Government in the issuance of the patents acts through its own officers—you have got an entirely different issue before you. You have certainly entirely changed the character of the patent system as we now understand it; you will have created a precedent that will rise to trouble us many times in the future in dealing with patents.

We say that, realizing that the Government has not only the right but the obligation to protect the public interest against a charge for excessive royalties as a factor in the cost element of the contract.

Now, in connection with what I have said with respect to section 1, Mr. Chairman, as to the requirement for a fair hearing, it is necessary to immediately refer to section 5, both as originally proposed and amended—the amendment which has been suggested here.

You have had presented to you by others the suggestion that the delegation and redelegation of power which was originally provided, went very far in lessening the responsibility and qualifications of the administrative official who would determine whether or not there were excessive royalties in the first instance.

It has been suggested to you an interdepartmental board exercise the power of Section 5 that is based on precedents created elsewhere, for instance, in the whole field of the renegotiation of contracts where we are confronted with administrative boards set up to finally pass upon these matters, the subject having involved so much confusion—in the beginning—it has now been a subject for correction in the tax bill.

We believe these two matters are intimately related, that is, the opportunity for adequate hearing and a fair hearing, and the character and personnel of the board before which the party is to have that hearing.

Mr. LANHAM. Mr. Emery, have you drafted anything you would recommend with reference to section 5?

Mr. EMERY. No, sir! but we believe that in substance the suggestions Mr. Fenning made are good and we would conform very closely. That is what is needed here, is an interdepartmental committee that would have on it representatives of the military departments affected, because of their knowledge and information of the circumstances to be met; but furthermore to have some impartial officer there also, or some impartial person.

In the renegotiation of contracts we have gone out into civilian life and created memberships on those boards for that purpose and so far they have been doing an excellent and difficult job.

The amendment that is suggested here, Mr. Chairman, that has been presented this morning does not very materially change the original suggestion that was made.

The head of the department or agency of the government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the redelegation of any power and authority conferred by this act to such responsible officers, boards, agents or persons as he may designate or appoint.

We have the word "boards" in here for the first time; but the authority to redelegate to individuals remains as it was. I suggest with all due respect to our good friends in the military service, for whom we have the highest regard, that they are the party at interest in the redetermination of the royalties. The Government is protecting its interests and its officers protect that interest very properly. There is no arbiter; no third person; no disinterested individual who has not the viewpoint of the Department of the matters to be inquired into. It is in the hands of the department.

That is the reason for the creation of these boards which have rendered such effective service elsewhere. They brought a detached and impartial view into the picture and I am sure that the officers in the military service have no desire to be other than fair in the adjustments that they feel it necessary to make.

I can, therefore, see no reason why they should object to the introduction of an impartial official from any other department or the creation of an interdepartmental committee for such a purpose. That is the course commonly pursued in many other departments in determining the differences between the Government and private businesses.

Mr. LANHAM. You will recall, Mr. Emery, that on the first day of the hearings—you were present on that day, if I remember.

Mr. EMERY. Yes, sir.

Mr. LANHAM. Attention was called to this particular section. Of course we realize that there must necessarily be some delegation of authority by the heads of these departments, in view of the fact that the Secretary of War, the Secretary of the Navy, and so forth, could not give their personal attention exclusively to these matters; but attention was called to the desirability, as some of us thought, of some modification of that that would avoid confusion and a wide variety of rules and regulations, and I for one, as a member of the committee, am anxious to see that fixed in such a way that it will be entirely satisfactory both to the military and naval authorities and to those with whom they deal under this proposed legislation.

I think perhaps——

Mr. CHAPPELL (interposing). Mr. Chairman, there is one thought that I would like to raise here. It has been my experience in the Navy that there are a great many matters that are so highly confidential that maybe only one or two or three people in the Department will know something about them. There are others which may have a slightly wider circle of very select personnel who know about them.

If you establish a board, an interdepartmental board, anything of that nature would absolutely be out of the Board's jurisdiction and would necessarily have to be, because we could not submit any question relative to such matters to it.

Mr. LANHAM. You mean requiring the disclosure of confidential information?

Mr. CHAPPELL. Yes; requiring the disclosure of confidential information. If we were limited to merely considering matters before an impartial board, we would be in a very poor position to adjust on confidential matters which might call for adjustment.

I think it fair to assume that the heads of the War Department and the Navy Department are going to administer this measure fairly, I do not think there is any intention of delegating authority down to the fourth assistant messenger, or anything of the sort even if, theoretically, that could be done.

As a practical matter, I do not think there is any danger of it being done.

Mr. LANHAM. My thought in the matter originally was that perhaps without any board, inasmuch as a delegation of authority necessarily is required in many of these instances, that there might be some provision under which the heads of these departments would be authorized by their direction, so that it would come from some responsible source,

to make the delegation, and if a redelegation of authority were necessary, with reference to any features that might be confidential or something of that character, that the same authority would make the redelegation.

I believe that this section could be drafted in such a way that it will be entirely acceptable to both the Army and the Navy, and to these people who are appearing here.

Mr. FENNING. May I say just one word?

Mr. LANHAM. Mr. Fenning.

Mr. FENNING. First with respect to secrecy: First the issue here is royalty under a patent. A patent has been published; the public knows about it.

Mr. CHAPPELL. No.

Mr. LANHAM. Not public, because we have laws providing for secrecy in connection with many of them.

Mr. FENNING. That is an application. Very well. If a patent is published, and that is where royalty is being paid chiefly, and that is what we are talking about, then the patent is public.

Second, the relief is obtained by a suit in the Court of Claims which is a court of record and if the Court of Claims may consider these matters which are secret, certainly a board which is created can be put under the same sort of secrecy as the Court of Claims.

Mr. LANHAM. Yes, but I do not see that that mitigates against the suggestion I am making that these things which are confidential can be kept confidential and authority can be given to the heads of these departments, or under their direction, for such delegation to be made, and we will have greater uniformity in the rules and regulations. My particular objection is to the inclusion of all of these various agencies. If that were restricted to such agencies as would be selected by the heads of these departments and by their direction, with the authority delegated, conceivably, of course, there are several agencies that ought to be used; but just to make an indiscriminate reference to all of the agencies, I am afraid would make for confusion.

I think we all have exactly the same thing in mind. I simply believe that it is a matter of verbiage and phraseology and getting this section in such shape that it will be satisfactory to all parties.

Mr. PLAUCHÉ. I would like to make one observation. Under this particular section, I can see great confusion might arise if several agencies were ordering the same manufactured articles and each one fixes a fair royalty to be paid. You might have four, five, or six different royalties to be paid to the same manufacturer, or the same inventor under this particular section, unless there be some central agency or coordination of effort, of mind, to fix the same royalty, and it would make for confusion with every manufacturer of a patented article, because there might be four or five different royalties fixed by various agencies on the same article.

Mr. CHAPPELL. The situation might vary with each successive order for equipment too, particularly from the volume angle. The first contract might be for 10,000 and the next for 10,000,000, and the royalty which was perfectly satisfactory for the 10,000 might be very unreasonable for the 10,000,000.

Mr. LANHAM. I can see that very readily, but I think the determination of that matter and the difference that should be paid should

all be within the knowledge of the one who is directing and who is delegating the authority in order that there might not be confusion. I think we all have exactly the same idea in mind. Quite a bit of fear has been expressed as to this particular phraseology. I think that we can, with your cooperation, get it satisfactorily stated, to carry out the purposes that we all have in mind.

Mr. EMERY. Mr. Chairman, you note, of course, that the provisions of this bill are not applicable, merely, to the production of military supplies. They are applicable to all production in which the Government is engaged or to which it is related at this time, and in which there are excellent contracts between patent owners and licensees.

There are various departments of the Government that are engaged in very important work that has an indirect military aspect, contributing to production for the war and affected by this bill, because patents are used. The very same objection or criticism as can be made to those immediately related to the direct military supplies. Further than that we would like to emphasize this, Mr. Chairman, once again, and I say it with great urgence to our military friends, that the fairness of this hearing, the character of this board, that is to determine these royalties will profoundly affect the successful administration of this act. If this is fairly done—and I am sure they desire to do it fairly—if this is fairly done—and it is equally as important to appear fair as to be fair—the work of this board will determine the successful administration of this act. Just as surely as this board does its job well, the Government will have little or no litigation and all of the cases that might possibly arise will be settled with the Government and there will be very few in court.

Mr. Chairman, we want to urge upon the consideration of the committee the fact, despite all of our respect for the Department of Justice, that section 2 should be amended to give alternate jurisdiction to the district courts of the United States. I say that first because it is a fundamental principle with the English-speaking people that the courts follow the suitor. He ought not to be compelled to come to a distant place, especially a place as congested as Washington is likely to be after the war. Because when we terminate this war, with the cancelation and adjustment of existing contracts, we are going to have a very large job on our hands. It is going to be one of the serious economic features and aftermaths of the war.

So that the Court of Claims is going to be a very busy court. Furthermore, any citizen at work in different parts of the United States ought to be able to avail himself of the district courts. In all of the other legislation we have enacted with claims against the Government—take for instance the Requisition of Property Act—we have given jurisdiction to the district courts. We did it in the last statute which you gentlemen passed, March 28, 1942, the Second War Powers Act. So that we have an excellent precedent for giving additional jurisdiction to the district courts both as a matter of convenience and as a matter of principle.

Mr. LANHAM. Any further suggestions, Mr. Emery?

Mr. EMERY. We would just like to suggest that you consider what has already been said as to striking out the limitation on settlement in section 3. That is, it will encourage them. I am sure these gentlemen want to get a settlement of these matters, disposition of them, so that these adjustments will not result in litigation.

Mr. LANHAM. You are referring to the amendment suggested by Mr. Fenning in line 21 on page 3, after the word "instituted" inserting "or in settlement thereof."

Mr. EMERY. Yes; so that following "empowered to enter into an agreement," beginning in line 20, if you will strike out after "agreement" the words "before suit against the United States has been instituted," you will effect that result, making it read, "to enter into an agreement with the owner or licensor of such invention."

I am sure that the Government wants to settle these matters. What difference does it make to them whether they are settled before or after suits have been brought.

Mr. PLANCHÉ. You could correct that by inserting the words "or after" after the word "before" in line 20, page 3, making it read "before or after suit."

Colonel PATTERSON. Mr. Chairman, might I point out to the committee the reasons for that language, and I think I can clear up misapprehensions arising by reason of the statements made by both this gentleman and Mr. Fenning.

There is a right of settlement after the suit is instituted. The language referred to was inserted merely to make it certain that the War Department, or the Navy Department, or any other interested agency, would not have the right to compromise a suit already instituted which is a power vested in the Department of Justice.

In other words we are going to attempt a compromise of these matters until such time as the suit is filed in the Court of Claims. I mean by "we," the Navy Department and the War Department. But after that time we feel that it is within the province of the Department of Justice to settle a case and it is not in the province of the Navy Department or the War Department. That is the reason for the language.

There is nothing in the language which would prevent a settlement after the suit is filed, except a settlement by the particular agency.

Mr. LANHAM. Do you have any further statement, Mr. Emery?

Mr. EMERY. Only on one other point, Mr. Chairman. That is in connection with section 4 and the new section 7.

These provisions provide that this act shall apply to goods which have been delivered to the Government before the act itself comes into effect if royalty has not been paid.

Well, that is a rather arbitrary distinction between royalties which have already been paid and those which have not yet been paid under some contracts, the terms of which have prevented an earlier payment, or an accumulation of it. It seems to us that the royalties which have been adjusted should not be effective until the order has been made in the particular case involved and notice served on the parties to the contract affected by the adjustment.

Mr. CHAPPELL. Mr. Chairman.

Mr. LANHAM. Mr. Chappell.

Mr. CHAPPELL. I may say that I feel that if we do not have the provision in as it stands there will be less opportunity for discussion with the owner of the patent relative to the amounts of the royalties, and it would be necessary for more precipitate action to stop the payment of royalties which we feel are excessive, and I feel that if

you want to have the chance to discuss those things rather than rush into them, it is better to wait and even let the delivery of goods continue and leave the matter for discussion between the Department and the owner of the patent.

You have a line there where it might be rather difficult to find a perfect point for the application of your rule; but I know that in many cases deliveries go on under contracts before the contracts are signed. In most of them, in fact.

Mr. EMERY. Well, these are cases, of course, in which goods have been delivered. This does not interrupt the flow of goods. The goods are delivered; supplies are received under the contract, but the royalties that are due to be paid by the licensee to the licensor have not yet been paid.

The same goods and supplies, under like circumstances may be supplied by others and the licensee has been paid. The difference between the two is a purely arbitrary one.

Second, and most important of all, Mr. Chairman, is that an application of the law ought not to be made to parties to a contract until the order has been issued. An order in any case may not arise until sometime after the law has been in effect. But if the parties in the first instance have an order fixing the adjusted royalty fee before there has been a hearing of themselves, they are placed in a very difficult situation in their future relations with the Government in the settlement of any claim or the pending suit, because they are under the disadvantage of having an order made without a hearing. They are compelled to go into court to get a hearing, which has been denied.

So, that is a vital part of this matter we referred to.

Otherwise, they are in the position of the White Queen in Alice in Wonderland, who informed Alice that in that country they arrived at the verdict first and held trial afterward.

That consideration is vitally important to the fair operation of the act.

Another matter, Mr. Chairman, is the modification of the repeal section.

I may recall that to your attention there that you cannot repeal sections 1 and 2 and leave section 5 in. If you repeal sections 1 and 2, section 5 ought to go out, because section 5 is what operates under section 1.

Mr. LANHAM. Well, did you hear the suggestion of Mr. Henry that all of this be made temporary, except section 6?

Mr. EMERY. No; I did not hear that, Mr. Chairman. Except section 6 affecting the Act of 1918?

Mr. LANHAM. Section 6.

Mr. EMERY. Section 6?

Mr. LANHAM. Yes; the suggestion of Mr. Henry was that all of this be made for the duration of the war and 6 months thereafter.

Mr. FENNING. Section 5 states who shall conduct the settlements under section 3 during and after the war, and section 3 certainly should be retained for settlement.

Mr. EMERY. That is provided for.

Colonel PATTERSON. I want to bring to the attention of the committee too, the fact that if you eliminate certain other paragraphs,

you are going to effectively stop settlements and collections by patent suits in court on these claims which may arise after the war.

Mr. LANHAM. Does that suggestion lead you to wish to modify your suggested amendment, Mr. Henry?

Mr. HENRY. Mr. Chairman, the purpose of considering this bill here, and when we make suggestions as to the modification of particular paragraphs of it necessarily means that would entail modification of some other paragraph.

It was simply my suggestion that the bill be limited for the duration of the war and 6 months thereafter. That implies that whatever had been done or whatever action had been taken that the authority would be retained in the bill to pursue that action or to pursue that course.

So, it may well be that other parts of this bill should be amended in order to retain the right of suit or the right to continue to adjust the claim if some action had been taken under the bill.

Does that answer your question, sir?

Mr. LANHAM. Yes; but how would you modify this bill to bring about what you have suggested?

Mr. HENRY. Well, it may take another paragraph or it may take a modification of section 3.

The thought that I was trying to express was that the bill in its entirety, with the exception of section 6, be limited for the duration of the war and 6 months thereafter. Now, if any action has been taken under other sections of the bill that was necessary to be pursued, of course, the right ought to be retained by the Army and Navy and other agencies of the Government to continue adjudication and settlement of the claims.

Mr. PLAUCHÉ. Would that phrase in section 7—

except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

Mr. HENRY. That would seem offhand to take care of the situation and to that extent, I would modify my suggestion about amendments.

Mr. PLAUCHÉ. You think that language would cover it?

Mr. HENRY. I think it would.

Mr. LANHAM. That is "except that as to rights accrued or liabilities incurred prior to termination"——

Mr. HENRY. It may be from a further study of the bill that it might be determined that some other language be adopted, but whatever language is adopted would be perfectly satisfactory insofar as the patent office is concerned, that meets the requirements.

Mr. KENNING. I think that the present language is safe and does no harm. It cancels the important sections 1 and 2 and we can have the remainder of it remain alive, if it is desirable to have it remain alive.

Mr. LANHAM. Well, under this suggested amendment of Mr. Henry, it would all remain alive for the determination of these matters arising under it until they have been satisfactorily adjusted, or adjusted, whether satisfactorily or not.

Mr. KENNING. That is all that it does at the present time.

Mr. HENRY. If the chairman will give me permission, I would be perfectly willing to study this bill carefully and submit what in my opinion would be appropriate to effectuate the purpose.

Mr. LANHAM. I think that the committee would like to have that from all of you gentlemen, in view of these discussions which have been very interesting and very helpful. We who serve on other committees and have labors of many different characters, are not experts with reference to any particular measure necessarily. That is especially true in connection with measures in which you gentlemen have specialized, and I think any statement you may submit will be helpful and I am sure that it will be given consideration.

I shall, with the consent of the committee, take the liberty of going through the various letters which have been sent in, and those which are pertinent and apply to the legislation include them in the hearings.

Had you concluded your statement, Mr. Emery?

Mr. EMERY. No, sir. I just want to say that the National Association of Manufacturers through its officers, are only too glad to cooperate with its services in this matter as they have in every other respect.

Mr. LANHAM. We appreciate that. Do you have other suggestions?

Mr. EMERY. Only one thing. I just want to call your attention in section 8 to a misprint which has caused some misunderstanding.

Mr. LANHAM. Section 8?

Mr. EMERY. Yes. That refers to the provisions of section 10 (1). That is section 10 (l). That has caused some of the gentlemen some inconvenience.

Mr. LANHAM. That should be (1).

Mr. EMERY. Yes, sir.

Mr. LANHAM. I guess there can be no controversy about that.

Mr. EMERY. No.

Mr. LANHAM. I understand that the Alien Property Custodian has representatives here. I am just wondering if he has any comments to make or any statement to submit?

STATEMENT OF R. W. WILSON, REPRESENTING THE ALIEN PROPERTY CUSTODIAN

Mr. WILSON. I have neither comment nor statement.

Mr. LANHAM. We are glad to have you with us, Mr. Wilson.

Mr. WILSON. Thank you.

STATEMENT OF R. S. OULD, WASHINGTON, D. C.

Mr. OULD. Mr. Chairman, may I have a minute?

Mr. LANHAM. We have but a minute.

Mr. OULD. My name is R. S. Ould, patent attorney, National Press Building, Washington, D. C.

Mr. Chairman and member of the committee, members of the committee have expressed solicitude that any board or especially a body that may be constituted to adjust matters in the purview of this bill should be very carefully constituted and scrutinized.

It seems to me that solicitude is very much fortified by the record in the hearings in the proceedings before the House Committee on Military Affairs in the Seventy-third and Seventy-fourth Con-

gresses, I think under House Resolution No. 275, Seventy-third Congress in which some practices and some specially constituted boards which in part related to patent matters be euphemistically characterized as being unfortunate. The hearings were very extended. Congressman Rogers of New Hampshire went into some of those patent matters very carefully. He was chairman of one of the subcommittees. Some of the matters I know came down from the War Department. I attended some of those hearings, and I simply thought that I would make reference to that as some important past experience.

I should also like to point out that the position of the Government in connection with these license agreements and the question as to whether the Government is simply stepping into the shoes of the licensee involves the characterization to some extent of the Government acting under duress in these matters. That is to say, an ordinary licensee will consider a proposed license agreement from the good business point of view, but as one of the representatives of the War Department pointed out in a case I think of a rolling mill, various machines were available, but they had to use all of them, whereas an ordinary licensee simply takes the one which presents the most attractive patent proposition, but the Government is at the present time not in a position of being able to select. The Government has got to take all available machines and, therefore, there is that distinction between the position of an ordinary licensee and the position of the Government in this instance.

Mr. LANHAM. Thank you, Mr. Ould. We are very grateful to all of you for your help in this matter, and let us hope that we may find wisdom in multitude of counsel and be able to get a proper law enacted.

The committee will stand adjourned.

(Thereupon, at 12:33 p. m., the hearings were concluded, and the committee adjourned.)

APPENDIX

OCTOBER 9, 1942.

Re H. R. 7620.
HON CHARLES KRAMER,
House Office Building,
Washington, D. C.

HONORABLE SIR: I acknowledge, with thanks, the courtesy extended in yours of the 2d.

In looking over the said bill one phase of it strikes me as inviting litigation and creating confusion.

Let us assume that the department head or agency is thoroughly familiar with his subject, or has in his department an experienced party who has a royalty rate in mind when ordering the article made. If this assumption is correct then it is my opinion that there should be no quibbling between the licensor and the department head, as the licensor has redress through the provisions of section 2. I therefore suggest the elimination or deletion of lines 9 and 10, page 1, and lines 1 to 5, of page 2, including the word "thereafter," line 5, and substitute therefor "head of the department or agency of the Government which ordered such manufacture, use, sale, or other disposition,".

To carry out this idea the following should be deleted from lines 17, 18, and 19 of section 3, namely: "whether or not an" in line 17, all of line 18, and "Section 1 thereof," from line 19, page 3.

Page 5, after "materials," line 6, insert "based upon a patent or an application for patent."

I regret that I will not be in town on the 13th.

Yours very truly,

CHAS. R. ALLEN.

OCTOBER 14, 1942.

HON. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: I am sorry that I cannot attend the hearings which you are holding on your bill H. R. 7620. I have read the copy of the bill which you forwarded with your letter of October 2, 1942, with considerable interest.

Personally, I see no reason for Congress to pick on patentees any more than it does on other property owners. Is there a bill pending before Congress providing that the War Department or other Government agency shall have the right to reduce the rent paid by manufacturers for factory space so that the Government does not indirectly have to pay high rent; or is there a bill providing that the War Department shall have the right to reduce the wages a manufacturer is paying in order to obtain war materials at less cost?

Does Congress expect to encourage the spending of time and money in the making of new things for the war effort the same as it has encouraged workers who produce old things for the war effort by protecting the workingman's wages? It seems to me much more vital for us to develop new defense materials that will put us ahead of the Axis, than that we tell inventors that we deem it necessary to provide that some Government agency can discount the value of their services and contribution.

Nor does the word "reasonable" appearing in the bill properly safeguard the patentee. What is reasonable in time of war is whatever an autocratic agency may say. No workingman would volunteer to make guns for the Army under such a law as applied to his wages. Nor does Congress expect to take the

so-called social gains away from labor, although they have cost us far more in the war effort than any amounts paid to the research man and inventor.

Quite irrespective of what may seem to be the fact, the income and well-being of those vitally employed in the creation of new processes for production in the war effort, whether as individual inventors or as the personnel of a large research group, depend entirely upon the royalties received. If Congress expects inventors and research organizations to play Santa Claus to the war effort, why not expect the same of labor, of the farmer, and even of the Congressmen?

Real inventors are scarce in this country. We do not have enough of them. Yet it is not enough to ask them to contribute from their incomes in the form of taxes on the same basis as others. Their incomes must be reduced. Why?

Where payments of royalties to a corporation doing research might be deemed excessive, it may be pointed out that it goes to pay for increased research for the war effort or else, in most instances, 80 percent of it is returned to the Government as taxes. The Government gets its money's worth out of such payments.

It has been said that many license contracts were made with peacetime production in mind and that the large volume of wartime production results in too high a payment to the investors. Payments to research organizations are necessary to enable them to carry on in the war effort. Without such payments they could not continue to advance salaries to inventors while working on new projects. Nor can the payments or rates on one successful project be measured solely on the basis of that project. For every successful development there are many projects which fall by the wayside, and every research organization, like every individual inventor, must pay for the lost effort through that which is successful.

Every invention is a contribution of labor and a contribution to labor. In every corporation, labor, by foregoing the highest possible wage, enables management to pay for the living of research workers who in their effort make the inventions relating to new processes, new products, and new materials so vital to our war effort and our peacetime well being. In turn, these same new inventions give greater production, greater employment, higher wages, and greater security to labor, as well as greater safety and security to our Nation.

I speak of inventors as workers, for, indeed, they are. One man's labor in the research field may be the equivalent of a million men in the war effort. It may save a million lives. The amount paid to one inventor or group of inventors may encourage another who succeeds in the endeavor. Can it be said that the amount paid to the first was unjust even though, for a slim invention? Let us not begrudge it.

It is high time that we quit picking on groups and classes of individuals and started looking at principle. I suspect that if this bill is passed, we will soon hear of another where Congress, made up largely of lawyers, will be asked to provide that some administrative agency can insist that a manufacturer client of some Congressman paid too much for his legal services a year ago and that he must refund it to the client or to the Government.

I, personally, am opposed to any bill that is not sound in principle, and I feel that this bill is not sound.

Sincerely yours,

ELWIN A. ANDRUS.

THE PATENT LAW ASSOCIATION OF CHICAGO,
Chicago, October 9, 1942.

Re H. R. 7620.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House of Representatives,
Washington, D. C.

SIR: We are informed that Secretary Stimson in his letter requesting the enactment of the proposed legislation said that, in a number of instances, manufacturers with whom contracts for the production of articles for the War Department had been placed were found to be manufacturing under license agreements entered into during peacetime and binding those manufacturers to pay specified royalties. The Secretary said that under peacetime conditions those royalties were fair and reasonable, but, when applied to the enormous quantities needed for the war effort, the royalty rates are regarded in some cases as exorbitant, excessive, and unfair.

In view of this, the Patent Law Association of Chicago, through its legislative committee with the approval of its board of managers, wish to approve the bill in principle and to offer the following suggestions:

Section 1, page 1, line 9, after "which" insert "under the changed conditions caused by the state of war."

Line 10, after "excessive" insert "as applied to wartime production directly or indirectly for the United States".

Page 2, lines 5 and 6, before fixing and specifying the rates or amounts of royalties, the licensor or licensors should be given notice of, say, ten days and an opportunity to be heard.

Section 2, page 3: Many departments and agencies have insisted that the contractor indemnify the United States against all claims for infringement of patents or for royalties, etc., and the bill should be amended to provide that, in case of recovery in a suit against the United States, the United States should have no claim against the contractor under any such indemnity provision.

Section 2 should also be amended to provide for suit in the United States district court in any district in which a licensor is an inhabitant instead of in the Court of Claims. The preference for the appropriate district court is in line with H. R. 6852, section 2. Jurisdiction in any district in which a licensor is an inhabitant would take care of instances where the licensors were joint patentees or joint owners and were inhabitants of different districts.

Section 3, page 3, line 17, after "patent" (second occurrence) insert "of the United States" to make the language correspond to section 1, line 4.

Section 4, page 4, line 7, after "shall" insert "thereafter" and in lines 10 and 11 strike out "or by way of refund to the Government if already paid by it to the licensee". This is suggested to prevent the proposed law from being retroactive and imposing a hardship upon licensees who have already been paid and upon licensors who shall have already received royalties and who have made commitments, paid taxes, or otherwise acted with respect to the money in a way that would make refund difficult or impossible.

Section 6, page 4: The act of June 25, 1910, as amended July 1, 1918 (40 Stat. 705; 35 U. S. C. 68) does not apply where the use or manufacture by or for the United States is with license of the owner or lawful right to use or manufacture the same (*Deforest* v. *United States*, 273 U. S. 236; 71 Law Ed. 625; 1927) and it might cause confusion to amend that act by legislation, which is directed particularly to license contracts. But, be that as it may, lines 24 and 25, page 4, and lines 1, 2, and 3, page 5, appear to be too limited with respect to the authorization or consent of the Government.

Must the "authorization or consent of the Government" be given expressly to a contractor and to his subcontractor?

Will mere acceptance by the Government supply the authorization or consent?

Will mere knowledge by the Government's agent of what the contractor proposes to furnish be sufficient to supply tacit consent?

Must the contractor get express authorization or consent to make the law cover his subcontractor's use of a patented process rather than an unpatented process because the patented process is better, cheaper, or faster than the unpatented process?

When the contract with the United States or with the subcontractor is for something that must be designed and developed, does the failure or inability of the United States to give specifications supply the necessary "authorization or consent of the Government" for what is designed and developed and for the use of the most expedient process in development or production?

These questions will illustrate how the present language would leave many conditions in doubt.

Yours very truly,

L. B. MANN,
Vice President.

CHRISTY, PARMELEE & STRICKLAND,
Pittsburgh, Pa., October 6, 1942.

Hon. CHARLES KRAMER,
House Office Building, Washington, D. C.

DEAR MR. KRAMER: I appreciate your courtesy in sending me a copy of H. R. 7620. I have read it, and it seems to me to be a well-conceived and desirable item of legislation. So regarding it, I do not desire to attend

the hearings, and if anything should arise to change my judgment, I will let you know.

I have two or three times encountered a practice that seems to me quite indefensible and wrong—the practice on the part of Government agencies on entering a contract for the supply of patented material, to require of the patentee that, beyond the immediate field of the contract, he surrender in favor of the Government all his patent monopoly. This seems to me to be contrary to the spirit of the patent law, unjust, and under the circumstances tyrannical. The bill, if enacted, will tend to correct that practice.

Yours respectfully,

BAYARD H. CHRISTY.

CLEVELAND, OHIO, *October 13, 1942.*

CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

I respectfully urge upon House Patent Committee that H. R. 7620 should contain provision that where a Government department proposes to take action to reduce the royalty provided by a license contract the owner or licensor should in all fairness be given an opportunity to be heard and present any reason he may have why the royalty should not be reduced or not reduced to the extent contemplated. The licensor is a party vitally interested and his interest established by an existing contract should not be diminished without giving him opportunity to be heard.

A. J. HUDSON,
President, Cleveland Patent Law Association.

WATSON, COLE, GRINDLE & WATSON,
Washington, D. C., October 7, 1942.

Hon. CHARLES KRAMER,
House of Representatives, Washington, D. C.

DEAR SIR: I appreciate your kindness in offering to me an opportunity to comment or testify on H. R. 7620. Unfortunately I am pressed for time at the moment and have been unable to give the bill anything more than a casual reading.

My immediate reaction to it is favorable, and I have no doubt that your committee will give ample consideration to the detailed procedure for which the bill provides so as to insure that royalty provisions will not be held unreasonable merely as a matter of form or by persons not qualified to pass on such matters. I can see that there may be a real need for such legislation, which is altogether a different situation from that which obtains in connection with certain bills now being considered by the Senate committee and which are, in the opinion of many who are eminently qualified to pass on them, wholly unjustifiable efforts to undermine the patent system under the guise of war legislation.

I may explain that the foregoing comments represent only my own reactions, and do not express the views of the American Bar Association or any committee thereof of which I may be a member.

Yours very truly,

FRANCIS G. COLE.

WASHINGTON, D. C., *October 16, 1942.*

Re H. R. 7620.
Hon. CHARLES KRAMER,
House Office Building, Washington, D. C.

MY DEAR CONGRESSMAN: In considering H. R. 7620, I believe that the House Committee on Patents might well consider the following comments as to the necessity for and the probable operation of the proposed bill.

According to the representatives of the War and Navy Departments little difficulty is ordinarily encountered, by virtue of existing patent licenses, in contracting for the manufacture, use, and sale of inventions, but occasionally difficulty arises where the manufacturer selected for the job is under contract

with a licensor requiring the manufacturer to pay royalties to the licensor, and the licensor is unwilling to reduce such royalties.

Under the act of June 25, 1910, as amended July 1, 1918 (U. S. C., title 35, sec. 68), the patent owner has been provided with an adequate remedy against unlicensed use of his patent for the United States. True, that act may not perhaps extend to actions ex contractu by the licensor against the licensee, but it is extremely doubtful whether any court would in any such action sustain a claim for unreasonable royalties against a licensee, based upon operations conducted at the behest of the Government.

As was brought out by Colonel Patterson, at the recent hearings before the House Patents Committee, such situations have been handled by the War Department by simply directing the licensee to carry out the operations desired by the War Department and to withhold payment of royalties, with an undertaking on the part of the Government to hold the licensee harmless against damages sustained in any action against the licensee by the licensor. In view of the conclusion reached in the next preceding paragraph of this letter, it is doubtful whether any further legislation is required.

The contention has been raised that if this bill is enacted into law, it will save the Government a great deal of money. Actually I believe it would do no such thing, but will simply create a multiplicity of suits.

If this bill is enacted into law, it is obvious that the employees of the War and Navy Departments who are negotiating the contracts will be placed under an increased responsibility with respect to contracting for royalties on a just and reasonable basis. It is extremely doubtful whether such employees are the best judges of what is reasonable and just. Probably in the majority of instances such employees will not possess sufficient familiarity with industrial problems to have any clear comprehension of the factors entering into a determination of what would be reasonable and just under the circumstances.

Moreover, the obvious tendency which would be created by the bill would be for each War or Navy Department employee who is negotiating a contract to insist on a lowering of the royalty below such royalty as might be offered by the licensor, simply to protect himself against possible criticism. Therefore, instead of the wholly desirable result of curing a relatively small number of difficult situations, the bill, if it becomes law, will probably have the effect of arbitrary reduction of royalties in the vast majority of instances. And in a great many of these instances the final result will be to encourage litigation against the Government.

Looking at the same question from the standpoint of the licensor, it is obvious that any licensor who is the sort of person who might be expected to ask for a higher royalty than would be fair and reasonable would be likely, if this bill were enacted into law, to refuse to enter into any voluntary compromise. I think that such a person would be likely to refuse to make any compromise and to force rather than to try to prevent the application of section 1 of the Act, and then, to bring suit against the United States under the provisions of section 2, hoping either to obtain a decision calling for higher royalties or to effect a compromise which would afford him higher royalties than the Government would wish to pay, were no such suit likely.

Or, to take the case of a licensor who is justifiably entitled, for reasons perhaps not fully appreciated by minor Government officials, to a certain royalty, it will readily be apparent that the bill if enacted into law will have a vicious result. It puts such a licensor at the mercy of the perhaps inadequate conclusions of the Government official with whom he is dealing. His only remedy is by way of an expensive suit in the Court of Claims where his patent is placed in jeopardy.

This is particularly so because the bill at least, as initially introduced into the House, would permit the United States not only to attack the validity of the patent but also to deny the utility of the invention. Such defenses are not proper under the circumstances as is evidenced by a long line of decisions under the 1910–18 act. The Department of Justice has taken the position that the Government should be permitted to deny the validity of the patent for the reason that failure to provide this defense would be inconsistent with the law of eminent domain. That view implies that the act is intended to work a forfeiture or seizure of the patent, which is quite inconsistent with the true purposes of the bill. Where the Government pays a royalty, it should be in the same position as a licensee, and estopped to deny the validity of the licensor's patent.

Moreover, I believe it was not brought out in the hearings before the House Patents Committee on this bill that the courts have held, under the 1910–18 act that, where the Government makes use of an invention it is estopped, under equitable principles, to deny the utility of the invention. It would obviously be inequitable to permit the Government to deny the utility of an invention, the use of which it has itself ordered, yet such is the effect of the bill, as introduced to the House of Representatives. In this connection your attention is directed to the decision of the Court of Claims in *Olssen* v. *U.S.* (25 F. Supp. 495, 87 Ct. Cl. 642).

It has been stated in the hearings that section 6 of the bill is necessary in order to clarify the application of the act of 1910–18 with respect to subcontractors. There is a good deal of legal opinion to the effect that no such clarification is required (see for example the address by Hon. Wallace H. White, Jr., in the Senate of the United States on June 29, 1942). However, if such clarification is desirable, it would seem that this purpose might best be achieved by simple amendment to the present act, and without endangering the pitfalls which are likely to follow the enactment of H. R. 7620.

In conclusion I should like to add that I believe that the War and Navy Departments have either exaggerated their problems, which a more constructive and fair attitude toward industry might easily overcome, or that they have sometimes failed to understand or appreciate the factors underlying patent royalties. For example, I am personally inclined to believe that such difficulties as they may have encountered are likely to have arisen where (1) there is involved some invention which in peacetimes does not ordinarily bring any return whatsoever to the inventor or, (2) in a situation in which the licensor has, prior to the war, issued commercial licenses to others containing "most favored nations" clauses, and while perhaps quite willing to reduce these royalties for war purposes, is unwilling to have his commercial situation, quite apart from any war uses, ruined. I have had some slight experience in the negotiation of patent agreements in connection with the war effort and where situations such as those described by the representatives of the War and Navy Departments are encountered there is usually found to be some perfectly sound reason underlying the licensor's refusal to reduce royalties. It is unfair and unwise to assume, merely because a licensor does not wish to reduced royalties, that his motives are either selfish or unpatriotic.

You will understand that the views expressed in this letter are my own personal views, as a patent attorney, and not necessarily those of any agency or branch of the Government. I do not represent any owner of a patent whose interest, so far as I am aware, would be adversely affected by the proposed act.

I am,

Respectfully,

HORACE B. COOKE.

ATLANTA, GA., *October 6, 1942.*

Mr. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Thank you very much for your letter of October 2 regarding H. R. 7620. It is unlikely that I will be in Washington at the time hearings are held on said bill; but in view of your request for comments or suggestions, I take the liberty, as an individual patent attorney, of expressing the view that this and sundry other legislation of the general type involved is both unnecessary and undesirable. The latter because it is discriminatory in being aimed at a special type of property; and the former because the Government has ample authority to deal with situations of the instant type, and presently existing machinery in the Court of Claims is entirely adequate to ultimately adjust all difficulties between the parties.

This bill would seem to merely provide additional complicating procedure, it being apparent that all controversies will either have to be adjusted or fought out in the court in the end anyway, and the answer arrived at, insofar as theory is concerned, would be the same, with or without this intervening legislation.

In my travels throughout the country I have found certain manufacturers who are disinclined to "underwrite" patent liability as required by the Government in many cases, and if in fact such reluctance is in any way impeding the war effort, it would seem that the Government should in all cases go

straight across and assume all liability, leaving the inventor to the recourse provided in the Court of Claims, where his progress, judging by the past, is apt to be slow and beset by many pitfalls, and where his chances of securing unjust enrichment at the expense of the public may be said to be de minimus.

Yours very truly,

K. WILSON CORDER.

DARBY & DARBY,
New York City, October 5, 1942.

HON. CHARLES KRAMER,
Chairman, Committee on Patents,
House of Representatives, Washington, D. C.

MY DEAR CONGRESSMAN KRAMER: This will acknowledge the receipt of your favor of the 2d, enclosing a copy of H. R. 7620.

Unfortunately, my professional engagements prevent my attending, especially on Tuesday, October 13, the hearings on the above bill. However, in the hope that it may be of assistance, I express my disapproval of the bill for the following reason:

I have repeatedly put myself on record as opposing any legislation which permits or has as its object the direct or indirect payment of patent royalties to manufacturers of governmental materials for supplying such materials to the Government during war. In other words, to me the payment of such patent royalties by the Government during the exigencies of war is repugnant to every elementary principle and thought. The American public is being taxed to the utmost of its capacity to permit the carrying on of the war to a successful conclusion. The public is carrying that burden, heavy as it is, willingly and faithfully, and in realization of the fact that its burden in this respect is going to increase from year to year, and be coupled with sacrifices and living deprivations constantly increasing in number. The public faces this with the grim determination to carry its load uncomplainingly and to effectively meet every demand made upon it. It is difficult to swallow the idea that part of this burden is the payment of patent royalties.

The winning of the present war is necessary to insure inventors and patent owners a continuation of their status as such. Most of the patent owners are engaged in manufacturing equipment for the Government for a profit. To say that the Government should not be entitled to use any inventions of such manufacturers without payment of royalty for the successful prosecution of the war, is to put the industrial profiteer on a plane over and above that of the American fathers and mothers who uncomplainingly give their sons and their sons' lives to the Government for that purpose.

The act of 1910, as amended in 1918, magnanimously, affords patent owners the most that they should be entitled to, namely, the right to sue the Government in the Court of Claims for compensation for Government use of their patent rights. That is the most and all of a monetary consideration that a patent owner is entitled to by the patent statutes even in the industrial fields. Why should he be entitled to more in the governmental field? I therefore say that the bill should be framed on a different line, and have as its basis the mandate to the departmental heads to revoke every patent license between a patent owner and anyone else—including the Government—which requires the payment of royalty to the licensor for equipment made by or for the patent owner and sold directly or indirectly to the Government, for use by or for the Government, and to compel refund of any royalties so paid, which, either as royalties per se, or as part of the purchase price, is reflected in the total sum paid by the Government.

Cordially and sincerely yours,

SAMUEL E. DARBY, JR.

THE DOW CHEMICAL COMPANY,
Midland, Mich., October 7, 1942.

HON. CHARLES KRAMER,
Chairman, House Committee on Patents,
Washington, D. C.

MY DEAR CONGRESSMAN: Your letter of October 3 to Mr. Thomas Griswold, Jr., has been referred to the writer as the active partner in the firm of Griswold &

Burdick, which functions as the Patent Department of The Dow Chemical Co.

With respect to H. R. 7620, various questions occur to me. Is this kind of a law necessary or even important to the war effort? Is the Government at present forced to pay, directly or indirectly, an unreasonable royalty under any specific patents controlling the production of war goods? If there are such specific cases, could not the difficulty be resolved by negotiation without need for special legislation? The Government is able to renegotiate contracts for war goods if the price is excessive. Why not do the same when patent royalties are too high?

In the Government contracts with which the writer is familiar where patent royalties are involved, the royalties have been set at a low figure, much below what would be considered reasonable in normal times. In negotiating such contracts the Government can, and does, insist on low or nominal royalties.

The vice of the bill is that the decision in any particular case as to whether a royalty is unreasonable or excessive is left to the arbitrary judgment of any delegated Government official without giving the accused offender a chance even to state his case. This would open the door to unregulated harassment of Government contractors and subcontractors by any petty Government official who might be delegated to exercise authority. The remedy of suit in the Court of Claims is wholly inadequate, owing to the notorious delays and costs of such suits. A claimant might easily die or go broke before he could get a decision.

Under the bill each department, agency, bureau, or office would be a law unto itself on the question of reasonable royalty, and in each case the decision would doubtless depend upon a particular man having the delegated authority at the time in each office. Under such a system there could be no uniformity of treatment of contractors who would be subjected to the operation of such a law.

In these wartimes, the contract-making agencies of the Government have wide authority to impose conditions upon private contractors. It is thought that the power of the Government is ample to protect it against overcharges in royalties by private contractors without need for a new law as proposed in this bill. To set up a new class of petty bureaucrats would likely create more confusion in the war production program without compensating savings to the Government.

This is merely an expression of the writer's personal opinion, and has not been authorized by any official of this company.

Respectfully,

E. C. BURDICK.

HARRIS, KECH, FOSTER & HARRIS,
Los Angeles, October 9, 1942.

Re: H. R. 7620.
Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House Office Building,
Washington, D. C.

DEAR MR. KRAMER: I wish to thank you for sending me a copy of the above bill, and in response to your invitation I make the following comments thereon.

The bill provides in effect that the head of any Government department or agency, or any person authorized by such head, may by order fix the royalty that may be paid to any patentee on any article or service ordered by such a head. It gives the patentee a right to sue the Government for the royalty he would have collected had the order not been issued, but provides that if he sues the Government in the Court of Claims, the Government is sued as an infringer, with all the defensive rights of an infringer.

The bill in effect empowers any head of a governmental department or agency, or any person authorized by such a head to order a breach of any existing patent license agreement, if the Government desires to use the invention covered by said license. This official or officer issues an order that the royalty provided for in the agreement shall no longer be paid, and the licensee is thereby relieved of his obligation to pay royalty to any extent provided for in the order. The licensor then sues the Government just as it would sue an infringer. Under this bill, any existing license agreement, as far as dealings with the Government are concerned, may be breached to the extent of the order.

We have had a statute, 35 United States Code 68, on the statute book for more than 30 years, which provides that only the Government can be used for an infringement ordered by the Government. Although this statute somewhat abridges the rights of patentees, it has, I think, proved its worth. If the Government orders anyone to commit a tort, it is quite equitable that the Government should be sued. Of course, in actual practice Government contracts usually contain a clause under which the actual infringer agrees to reimburse the Government if damages are awarded in a suit against the Government. The important thing to remember about 35 United States Code 68 is, however, that it does not take away any right to damages; it merely changes the forum and the defendant without in any way minimizing the damages or otherwise affecting the patentee's rights.

The proposed bill provides that if the Government orders a breach by a licensee of his agreement with the licensor, the licensor cannot sue the licensee for this breach, and it further provides that it cannot sue the Government for this breach but must sue the Government as an infringer. The suit against the Government might ostensibly be in the nature of a breach of contract suit, but it is in fact an infringement suit, since the Government can avail itself of all defenses available to any infringer. The difference is this: Under present laws, if a licensee breaches a patent license contract and is sued for the breach, the licensee cannot dispute either the ownership or validity of the patent; the licensor simply has to prove the existence of the contract, the breach of the contract, and establish the amount of the damages. Under the bill, the Government does not step into the licensee's shoes as a breacher of the contract, but in effect the contract is entirely eliminated, and the Government defends just as if there had never been any contract. The Government says to the licensee, "We do not like your contract; we declare it null and void, and if you do not like it, sue the Government as an infringer in the Court of Claims."

I do not know the source of this bill. I presume some Treasury sleuth found some corporation juggling funds through royalty agreements. We seem to be in a "must have a law" period in which, every time some official sees some crook using an automobile to escape in, the official drafts a law to force everyone to use square wheels on his car, so that it will be easy to catch the crooks. The innocent bystander, in this case the inventors of the country, is usually the only victim of such laws. The crooks start using planes.

I am not prepared to discuss the constitutionality of this bill. As far as I know, 35 United States Code 68 is constitutional. In *Pierce* v. *Submarine Signal Co.* (25 Fed. Supp. 862), Judge Sweeney held it constitutional on the ground that, although it had taken away from the the patentee the right to use the manufacturer, it had given him "an equal right" to sue the Government. The bill under discussion does not do this. It takes away the right to sue the manufacturer for breach of contract and merely gives the patentee the right to sue the Government as an infringer, which is certainly not an equal right. I have been unable to find any other case in which the constitutionality of 35 United States Code 68 has been been passed on. I do not feel competent to pass on questions of constitutional law even after more study than I have given this matter. It does look to me, however, that under the act property may be taken without due process of law, and that private property is taken for public use without due compensation. This question of constitutionality must be referred to more competent minds than mine, and has undoubtedly been considered or will be duly considered by the committee. My opinion that it is unconstitutional is entitled to very little weight.

The practical aspects, and particularly the results that will follow is enactment, are main questions before the committee, and perhaps I can throw some faint light on these questions.

In case of many bills of this character, we are limited to mere speculations as to the probable effect of the bills. In relation to this bill, I happen to know of an actual recent case, which may show how the bill will operate, and a recitation of the facts of this case may help your committee to pass on this bill. One actual case is often better than a vast amount of theory. These facts are as follows:

A machine-gun chute is an open conduit or channel which carries to a machine gun a belt of ammunition from the box in which the ammunition is transported to or stored for the machine gun. Such chutes are of especial importance in connection with heavy machine guns used in planes and tanks. It should be understood that heavy planes and tanks have gunners who shoot from the side, rear, and top of the plane or tank from swivelled guns, and these chutes guide

the ammunition belts from the fixed box to the swivelled gun. The chutes must be all metal, light, strong, and very flexible, so as to feed the gun however it is turned. The Government has been buying one design of these chutes in quantity for some time.

Mr. Howard B. Lewis, of this city, is an engineer with a great deal of inventive ability and sound common sense. He is not only an inventor who can design, but he also can get things done. He is not a good financier, however, and I suspect he has made very little money up to date. He saw these chutes, and the more he saw of them, the more he thought he could make a better one. Using his own time and money, and perhaps some contributions from relatives and friends, he began designing and experimenting. I know nothing about where this money came from, and I do not have exact knowledge as to the financial status of Mr. Lewis or his project. I am not his patent attorney in relation to this invention, and I have no interest therein. He designed a new chute, tested it, designed tools to make it, and found a local concern, Smoot-Holman Co., who figured costs with him. He then went to Washington, submitted a chute and got it approved, and an order was given Smoot-Holman for about $800,000 worth of them.

He got this order largely because his chute is a much better chute than any previously available. A gunner in a bomber with his chute is more likely to put his bullets into a Zero than the boys now in the Solomons are, because the Lewis chute is more likely to function properly than its predecessors. We cannot, and I shall not, attempt to evalute in money the value of the Lewis invention as a bomber and life saving invention. Such values cannot be expressed in dollars. We can, however, evalute the invention, ignoring its value as a better chute. The Government is saving more than two-thirds of the cost of the old chutes, or, to put in dollars and cents, the Government is saving a million dollars, on this first order of chutes. This million dollars is not as important as the million man-hours that are saved in making the new chutes. By his invention, Mr. Lewis has saved the time of a thousand men during the next 8 months, or, putting it differently, he has made available a thousand more skilled workers for the next 8 months who would otherwise have been making the old chutes, and has saved the money to pay them. More than that, he has probably made these men available for the duration as other orders must be filled. It is impossible to say what a thousand such men are worth in the United States today, and I shall not attempt to place a value on them. Neglecting the value of the Lewis contribution as a life-saving invention and as saving the time of a thousand men, we can, however, say that it was worth a million dollars to the Government, since that is what the Government saved in real money.

Mr. Lewis was not, however, after a million dollars; he was trying to make a better and cheaper chute, so that bullets would get out of a box into the guts of a Jap. The contracts with Smoot-Holman, I am informed, originally contained a provision that no royalty or commission should be paid Mr. Lewis, and this condition was imposed by any Army officer, who knew Mr. Lewis had made a better chute and had saved the Government a million dollars and released a thousand men. The contracts were drawn under the direction of one of the men who would fix royalties under your bill, and probably fairly represent what will happen under this bill. Mr. Lewis was naturally somewhat astonished to find he would get no pay for his time and would not be reimbursed for the money he had spent. He, nevertheless, went right ahead, and there have been no delays in getting these chutes into production. Mr. Lewis took the position that the man behind the gun came first. Perhaps the Government has now reluctantly decided that Mr. Lewis should be reimbursed for his expenses and tipped a few thousand dollars, but as to that I am not informed. If Mr. Lewis gets anything, it is a gratuity dependent upon the whim of an official or officer.

This is exactly what may happen under your bill to any inventor. The remedy of suing for infringement in the Court of Claims is illusionary. A large corporation can afford to spend years of time and large sums in counsel fees pursuing the Government through the Court of Claims. A poor inventor would have to take whatever dole was handed him and try to like it.

There are several practical disadvantages of this theory that it would be a good thing to put the inventors on the dole. In the first place, it will greatly retard, if not entirely stop, the development of inventions.

Inventors who have bright ideas are, in general, perfectly willing to give them to the Government and take a chance on what the Government is willing to give them. Bright ideas taken alone are not of much importance. It takes time and money and intelligently applied effort to make them a reality. The average inventor has little or no money, and he usually is stopped as soon as he has conceived the idea and perhaps gets his patent. It is the history of all important inventions that someone with faith and energy poured time and money into them, often in the face of great opposition, and often ridicule, before they became a success. If Mr. Lewis had merely sent a drawing of his chute to Washington, there is small chance that the chute would ever have been made. Few inventions will be developed if the returns from them are dependent on the whim of some official or officer. The inventors will probably continue to lay eggs, but no one will be willing to hatch them if this bill becomes a law, and in this connection it might be well to point out that labor on inventions cannot be forced, and I do not believe any Governmental agency can apply competent and intelligent effort to patent development.

In the second place, the bill is quite unnecessary. Royalties from inventions are income and subject to income taxes. If the Government had paid Mr. Lewis the million dollars he saved, 90 percent of it would have gone back into the Treasury in income taxes. We have a client which has made a very great contribution to the war effort, which is a corporation, and which, therefore, if it collects $800,000 in royalty this year, can retain only $30,000 after it pays taxes. If this corporation owned the Lewis invention, which is not a fact, and if it earned $1,000,000 additional in royalties on the Lewis invention, it could retain only $ 6,000 of this royalty. If its royalty collected was the rather usual 5 percent of the value of the chute, its royalty retained would be less than one-fifth of 1 percent. Profits of this magnitude do not tend to promote inventive or development activity and certainly do not greatly burden the economy. If anything sells for $5, a cent royalty does not seem exorbitant.

It may be true that patent royalties can be used in a few rare cases to slightly minimize income taxes, but the Treasury eventually catches up with royalty dollars. Certainly, no inventor, regardless of how great his contribution to the national welfare may be, can hope to become a millionaire by collecting royaty, as he has to pay taxes on it.

In the third place, the bill is unwise. I am unable to understand this constant "sniping" at inventors. If we win this war, it will be because we have more and better machines than our enemies. Right or wrong, we are now committed to this theory, and a large part of our national effort is devoted to producing more and better machines. All our machines are the brain children of inventors. Thousands of inventors have contributed to produce what we have today. Without invention we would still be naked savages.

It is entirely possible that a single inventor may make an invention that will win the war. It is a fact that a large number of inventors are now trying to win the war. Very few of them will produce any startling inventions, but, collectively, their efforts are of great importance, and the invention of Mr. Lewis is typical. These men are one of our important forces, and they deserve every encouragement. In place of encouraging them, they are being constantly repressed.

Income tax tends to hamstring inventors. People with money have always been reluctant to back inventors. Today they refuse because, if the invention is a failure, they lose their money and, if it is a success and makes profits, these profits are absorbed by taxes. It is "heads the Government wins, and tails the investor loses." The inventor and his backers cannot keep any substantial portion of profits from an invention. The net profit is already very small; if the gross is to be reduced by some Government official, no wise man will make superhuman efforts to make and develop inventions. As to inventors, they have to eat and their families have to eat, and if they cannot eat and invent, they will not invent.

The present attitude of the courts is most unfavorable to inventors, and I do not favor further handicapping inventors. We now have the Supreme Court saying that only a "flash of genius" merits a patent, and the inventors face hostile courts in attempting to enforce their rights. The invention of Mr. Lewis was, perhaps, not such a flash of genius, but it resulted in a thousand more men in our factories and provided the money to pay them. The investor, faced with the income tax and hostile courts, must be very brave, if not reck-

less, when he lets any of his fast-fading dollars go to help an inventor, even under present conditions, and this bill will make these conditions worse.

The present unfavorable situation as to inventors is rather unfortunate as if and when, if ever, we win this war, we will need a flood of new inventions to provide employment for our men and tools.

In place of constantly discouraging inventors, the Government should encourage them. This is too much to expect. Those who profess a desire for a new social order, in which there will be plenty for all, seem particularly hostile to inventors, which is extremely hard to understand. The surest road to plenty is through invention. Farm machinery makes food cheap; the man who formerly swung a scythe, probably one of the hardest forms of manual labor, now rides a mowing machine; the reaper who formerly cut wheat with a sickle and laboriously bundled it now rides a harvester.

Personally, I have never seen or conceived a better method of rewarding inventors than that existing today, namely, a royalty system. If the invention has no value, no one pays royalty; if it is good, the royalty is proportionate to its merit. The reward to the inventor can never be excessive, since no one is willing to pay more royalty than the thing is worth. I do not think it wise to substitute any system of doles handed out by Government officials or officers for a system that has always worked so well. I therefore recommend that the bill be disapproved.

I shall not apologize for this long letter, as the bill is of great importance. I wish I could attend your sessions, as it would be highly educational for me, but I am afraid I cannot justify leaving my work here, which I regard as some small contribution to the national effort, as my contributions to your knowledge would be extremely meager. I am, however, sending a copy of this letter to each member of your committee, and hope it is worth the time needed to glance over it.

I think I may take the great liberty of saying that I think you are to be congratulated on the ability of the men on your committee, and that the Nation is very fortunate in having men of this type working on these problems. I have gradually come to have an increased respect for our Congressmen based on the record, and I wish to assure you that if this bill passes, I shall not regard it as a blot on that record, as I shall feel that those who objected to the bill have been given their day in court before a competent tribunal.

Yours very truly,

FORD W. HARRIS.

HAWOOD AND VAN HORN,
Cleveland, October 8, 1942.

Mr. CHARLES KRAMER,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Thank you for sending me the copy of H. R. 7620 and for telling me about the hearing. It is very improbable that I will be able to be in Washington next week, having just returned from there. I would have looked at your office, but was tied up completely until after time for the military guard to be posted for the night. Of course, that makes it a little difficult to get around in the evening as I used.

The first thought that strikes me on reading H. R. 7620 is that it obviously intends to function only in depriving inventors of securing the royalties to which they should be entitled. I look in vain for any provision that royalties which seem to be unreasonably low may be raised by the Government, or that where a contractor has refused to pay a patentee that it may direct that the inventor be paid.

There probably are more royalties which are too low than those which are too high. How about the old proposition that it is a poor law that does not work both ways?

Of course, under the existing law the inventor has no right of action for things made for the Government, other than in the Court of Claims, if he does not receive his royalties.

I have been greatly concerned lately as to the probable interpretation of contracts written by the War Department, and what bearing they would have on 35 United States Code 68 (R. S. 4919).

In particular, I refer to a paragraph which is being used by the Ordnance Department here, and which I understand they identify as Standard Clause No. 20 which reads as follows:

"The contractor shall hold and save the Government, its officers, agents, servants, and employees, harmless from liability of any nature or kind, including costs and expenses, for or on account of any patented or unpatented invention, article, or appliance manufactured or used in the performance of this contract, including their use by the government."

Now, if the patentee cannot sue the contractor but can only bring action against the Government in the court of Claims, and if the Government refuses to assume liability for any amount that may be awarded him, but passes the "buck" to the contractor, I am very apprehensive that many of the nonsubstantial "mushroom"-type of contractors will infringe with impunity, and the poor inventor will find nothing on which to levy, as, if, and when he ever gets a decision out of the Court of Claims.

It might be of interest to point out that most patentees do not regard the right to sue in the Court of Claims as any safeguard at all, but that when this possibility is brought to their attention, they say, "Oh well, if I sue there, it won't be decided until after I'm dead."

Certainly this frame of mind is not conducive to promoting "the progress of science and the useful arts."

May I not suggest that, if there is so much concern about the question of royalties, it would be much more to the point to make the contracts based upon prices which are definitely stated to be exclusive of any royalties, and provides that the Government would guarantee payment of the same when awarded by the courts, so that the inventors would feel assured that their interests would be taken care of properly, eventually.

I think if they had this feeling there would be no inclination on their part to disturb contractors on war work, but that the whole subject could be held over until after the "duraton."

Thanking you again for this opportunity of expressing myself on the bill, I am,

Yours sincerely,

HARVEY R. HAWGOOD.

HEARD, SMITH & TENNANT,
Boston, October 5, 1942.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House of Representatives,
Washington, D. C.

MY DEAR MR. KRAMER: I have your letter transmitting a copy of H. R. 7620 to provide for adjusting royalties for the use of inventions for the benefit of the United States and for other purposes, and I appreciate your giving me an opportunity to examine this bill.

The bill is evidently intended to amplify the provisions of the act of June 25, 1910, as amended in 1918 and to relieve the Government in wartime from an excessive increase in the cost of goods purchased by it due to the inclusion in the cost of royalties under patents previously agreed to by the manufacturer.

I can see no objection to such a law.

There are some minor points to which I might call attention.

I think it would be well in section 1, line 16, page 2, to change the word "additional" to "such excess" because the term "excess" is employed in line 12.

In section 5 when the authority and discretion conferred by the act is delegated it must, as provided in line 14, be "in writing". It seems to me that this provision "in writing" should also appear after "authorized" in line 17 and again after "delegation" in line 18, so that there may be no chance for oral directives being employed which might well result in litigation.

I do not understand the purpose of section 6 of the bill. It seems to me unnecessary as adding nothing to the law. Should there not be inserted before "manufacturer" in line 2, page 5, "only for the"?

Very truly yours,

NATHAN HEARD.

MILWAUKEE, WIS., *October 12, 1942.*

Hon. CHARLES KRAMER,
House of Representatives, Committee on Patents,
Washington, D. C.

DEAR MR. KRAMER: I received and I thank you for your letter, dated October 2, 1942, and copy of H. R. 7620, a bill for adjusting royalties for the use of inventions for the benefit of the United States.

Having recently completed my term as president of the Patent Law Association of Milwaukee, I turned over your letter to Mr. E. B. H. Tower, Jr., 735 North Water Street, Milwaukee, my successor as president of our local association. The bill has been given consideration by Mr. Tower and the legislative committee of our local association, and your committee will be advised as to their recommendations.

I would make the comment that H. R. 7020 appears to me to be one of the most practical, as well as the best drawn, bills that have been presented recently in connection with establishment or revision of the Government's rights with respect to the use of patented inventions. However, notwithstanding my favorable general opinion of the bill, I think that it could be improved in several instances, particularly in the interest of definiteness and more reasonable and equitable treatment of licensors and licensees; and I am offering suggestions for revision of the bill, in my attached letter to the committee. I would ask you to kindly turn over the attached letter to the committee for its consideration.

Sincerely yours,

J. J. KANE,
Past President, the Patent Law Association of Milwaukee.

MILWAUKEE, WIS., *October 12, 1942.*

H. R. 7020.

HOUSE OF REPRESENTATIVES,
Committee on Patents,
Washington, D. C.

GENTLEMEN: From my consideration of H. R. 7020, a bill for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, the bill appears to be a very sane and practical approach and a well-drawn proposal toward establishing a workable situation with respect to royalty payable in connection with such inventions. However, there are several modifications, indicated hereinbelow, which I believe should be made, in the interest of providing greater definiteness and more equitable treatment of licensors and licensees.

SECTION 2

The apparent intention of the bill is to provide fair compensation to patent owners or licensors for use of inventions by or for the benefit of the Government; and it recognizes the likelihood of differences of opinion as to what constitutes a fair royalty. However, the method of determining a fair royalty in disputed cases, i. e., through suit in the Court of Claims, is a notoriously slow procedure. Having in mind that the royalty charged by the licensee to purchasers is very often one determined by a prior contract between the licensor and licensee, it is extremely desirable that in any disputed case the patent owner or licensor be free to obtain a review of the question of what constitutes a fair royalty, in a much speedier and more expeditious manner than can be secured through suit in the Court of Claims. This can be accomplished through a review by the district courts of the United States. I believe that this section can very properly and fairly be amended as follows:

Section 2, line 5, after "Court of Claims" insert "or the District Court of the United States for the District of Columbia or the District Court of the United States for the district wherein the patent owner or licensor resides or has his principal place of business."

SECTION 4

The intention of the bill, particularly insofar as appears from section 1, is apparently that any reduction in royalty ordered by the Government will be borne by the patent owner or licensor; and this seems to be right and proper. But the present wording of section 4, particularly the last two lines thereof, leaves a definite implication that the "refund" referred to is one by the licensee to the Government, without any provisions for a corresponding refund from the licensor to the licensee where the latter has made refund to the Government. It usually happens that royalty is often required, by contract between the licensor and licensee, to be paid by the licensee prior

to final settlement with the licensee by the purchaser of the licensed apparatus; and operation under sections 4 and 7 of the bill permits the Government order for reduction of royalty to be rendered subsequent to payment of the full royalty by the licensee to the licensor. Particularly with this in mind, the bill should be amended to the extent of definitely providing that the licensee be relieved of the obligation of absorbing any reduction in royalty ordered by the Government. This can readily be accomplished by either of the following amendments:

Section 4, last line, change the period to a comma and add "such refund to be made by the licensee if the royalty has not been paid to the licensee to the licensor, and to be made by the licensor if the royalty has been paid by the licensee."

or alternatively:

Section 4, last line, change the period to a comma and add "such refund to be made by the licensee, but in the event that the royalty has already been paid by the licensee to the licensor, the latter shall make refund in like amount to the licensee."

SECTION 8

It is believed that the wording of the first sentence of section 8 is of such general character as to permit a great variety of rules and regulations issued by the various departments and agencies of the Government, and this will result in considerable confusion among patent owners and licensees furnishing materials and inventions to the Government. It seems particularly desirable that there be some single source (such as the Commissioner of Patents) of issuance of rules and regulations, applicable to the various departments or agencies, concerning the matter of reduction in royalties, or that the scope of the rules and regulations issued by the individual departments or agencies, and information required by the latter, be of reasonably limited scope. It is believed that desirable improvement could be effected by either of the following amendments to section 8.

Section 8, line 4, change the period to a comma and add "with respect to inventions whose manufacture, use, sale or other disposition is ordered by such department or agency under the provisions of this act.

or alternatively:

Section 8, lines 1 and 2, change "head of each department or agency of the Government" to "Commissioner of Patents."

Line 3, after "information" insert "to be furnished to any department or agency of the Government with respect to inventions whose manufacture, use, sale or other disposition is ordered by such department or agency."

I trust that the suggestions hereinabove may be of benefit in your arriving at a satisfactory form of bill to take care of the situation in question.

Sincerely yours,

J. J. KANE,
Past President, the Patent Law Association of Milwaukee.

MANUFACTURERS AIRCRAFT ASSOCIATION, INC.,
New York, October 6, 1942.

CHARLES KRAMER, ESQ.,
Chairman, Committee of Patents,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: Your letter of October 2d with reference to the forthcoming hearings on H. R. 7620 has been received and needless to say we are very appreciative for your consideration in connection with this matter.

The proposed legislation having to do with the adjustment of royalties affecting production for the Government has been studied with care, and it is our impression that the same has more to do with licenses negotiated with individual patent owners and royalty fees paid by subcontractors and other companies furnishing material to the primary contractors than it does with patents coming within the operation of the cross-license agreement administered by this office. Nevertheless, we desire to do what we can to assist your committee in the consideration of this bill and will be pleased to advise you further with reference to possible appearance at the hearings as soon as the views of our membership have been received.

I doubt very much if it will be possible for us to have anything for you by October 13 but will do our best to obtain a prompt response from the various aircraft manufacturers who might be interested in the legislation of the character at present being proposed.

Again thanking you for your cooperation with respect to the above, we remain

Yours very truly,

JOHN A. SANBORN,
General Manager.

MILWAUKEE, WIS., *October 12, 1942.*

Hon. CHARLES KRAMER,
Chairman, Committee of Patents,
House of Representatives, Washington, D. C.

The Patent Law Association of Milwaukee approves purport of House bill 7620, but deems that licensor should be given right to make showing before administrative tribunal to readjust royalty fixed by agency in first instance and right to obtain review by Federal district court of final decision by administrative tribunal according to procedure prescribed in House bill 6852, section 2, and that licensee should be saved from becoming liable to indemnify Government for any additional royalty granted on review either by administrative tribunal or Federal district court.

EDWIN B. H. TOWER, Jr.,
President, the Patent Law Association of Milwaukee.

PACKARD MOTOR CAR COMPANY,
Detroit, Mich., October 14, 1942.

Re H. R. 7620.
Hon. CHARLES KRAMER,
House of Representatives, Washington, D. C.

DEAR MR. KRAMER: I have a copy of this bill which you introduced recently and I have been much interested in it. I can well understand how the expansion of production in some industries due to the war would cause royalty payments of very unexpectedly large proportions, and certainly the royalties in those cases should be revised.

Packard has always been an advocate of low royalty rates, whether on the licensor or the licensee end of a contract. This is because we believe that in most cases it is just as important to produce and market a device as it is to design it.

I am sorry I could not attend the hearing on the bill yesterday but I would be interested in learning the results thereof. If there is a printed report, may I have a copy?

Very truly yours,

MILTON TIBBETTS,
Vice President, Packard Motor Car Co.

DEPARTMENT OF COMMERCE,
Washington, October 5, 1942.

Hon. CHARLES KRAMER,
Chairman, House Committee on Patents, Washington, D. C.

MY DEAR MR. CHAIRMAN: This will acknowledge your letter of October 2, 1942, advising me of the hearings on bill H. R. 7620 set for October 13, 1942, before your committee.

I have considered the provisions of the bill and am in sympathy with the purposes which it is designed to accomplish.

If I am unable personally to attend the hearings, I shall designate someone else to represent the Patent Office.

Cordially yours,

CONWAY P. COE, *Commissioner.*

ROCHESTER, N. Y., *October 10, 1942.*

Hon. CHARLES KRAMER,
Chairman, Committee on Patents, House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN KRAMER: I have your letter of October 3 re H. R. 7620.

Our Rochester Patent Group has given considerable thought to this bill and devoted the whole of its meeting of yesterday exclusively to its consideration.

We are completely in sympathy with the idea that no one should make undue profits because of the war emergency.

H. R. 7620 we feel, however, should provide that before an order is issued reducing a royalty there should be a hearing at which both the licensor and the licensee are entitled to be represented and heard.

Moreover, some provision should be made to insure uniform treatment of the license agreement by all governmental departments concerned. Under the bill as drawn, it is possible for the head of one department, say, the Secretary of War or his subordinate, to order one reduction in the royalty, and the head of another department, say, the Secretary of the Navy or his subordinate, to order a different reduction in the royalty.

We would suggest further in the interest of uniform handling that either the Congress itself provide in the bill some criterion by which the reasonableness or unreasonableness of a royalty might be judged or else that some authority, perhaps a district judge, be set up to pass on the reasonableness of a proposed reduction in royalty before an order for such a reduction be issued. The fixing of a royalty should not be left to the whim of whatever Government official might act in a particular case. There should be some assurance that under like circumstances, a licensor would be accorded the same treatment no matter with what Government department his licensee is dealing.

Further some limitation should be placed on the power to order royalty reductions. Under the bill as drawn it would be possible for a Government official, if he was of the opinion that a specified royalty was excessive, to order a reduction in that royalty even though the licensor might be receiving actually less return from his invention under war conditions than he would receive if the country were at peace (inventions applicable to automobiles and their accessories fall in this category). The bill should safeguard against arbitrary action.

So far as the provision for suit in the Court of Claims is concerned, we believe that a review of the record of this court, for the last several years or for even the last 25 years, will show that this offers the licensor little or no hope. It is practically useless for an inventor to bring suit in this court. The licensor should be given the alternative of suing in a Federal district court.

On the whole, while we are, as stated at the outset of this letter, wholly in sympathy with the idea that no one should profit unduly by reason of the war emergency, we wonder whether H. R. 7620 is necessary. It seems inconsistent for our Government to be fighting a war to reestablish the sanctity of international agreements while telling one of the parties to a private agreement to scrap that agreement. There seems to be no more reason for the Government to tell a contractor to violate a patent agreement than for it to tell a contractor to repudiate an agreement to pay a given rent on his factory or an agreement to pay a given interest on a loan.

It seems to us that if a licensor is making undue profits on a patent the excessive profits can be taken away from him very simply through income tax without risking the danger that by putting the Government in the position of encouraging disregard of contracts, the sanctity of all contracts be undermined.

We very deeply appreciate the opportunity you have given us to comment on this bill and want to thank you again for your courtesy.

Sincerely yours,

ROCHESTER PATENT GROUP,
By B. E. SHLESINGER, *Chairman.*

SOANS, POND & ANDERSON,
Chicago, October 5, 1942.

Hon. CHARLES KRAMER,
House of Representatives,
Washington, D. C.

DEAR MR. KRAMER: Thank you very much for sending me a copy of H. R. 7620, which appears to be a duplicate of S. 2794.

You may be interested in reading some preliminary comments which I have addressed to the committee on laws and rules of the American Patent Law Association.

Yours very truly,

C. A. SOANS.

OCTOBER 5, 1942.

CHAIRMAN, COMMITTEE ON LAWS AND RULES,
American Patent Law Association,
Washington, D. C.

DEAR SIR: My attention has been called to S. 2794, the Reynolds bill, introduced September 21, 1942, and H. R. 7620, the Kramer bill, introduced September 30, 1942. These are duplicate bills.

The principal objection which I have against these bills is that the suit for fair compensation must be instituted in the Court of Claims. Everybody knows that the procedure in the Court of Claims is so expensive, tedious, and complicated, and the attitude of the Court of Claims toward patents is so pessimistic, that the possibility of effecting any recovery at all is extremely remote, and, if a recovery by any chance is obtained, it will not be large enough to pay the plaintiff for the expense of the proceeding.

Hence I say that a supposed remedy by suit in the Court of Claims does not appear to be a remedy at all. Technically yes, but practically the remedy is nonexistent. I would not have any particular objection to the proposed statute if the patentee is allowed to bring suit against the United States Government in the United States district court in which the plaintiff resides.

I am curious about the purpose of section 7, which says that sections 1 and 2 of the act shall remain in force only during the continuance of the present war and for 6 months after the termination thereof. This seems to imply that, in times of peace, it is quite all right for a patentee to obtain an extortionate royalty from a contractor who, of course, may pass it on to the United States. Or does it imply that it is all right for the patentee to receive a fair royalty in times of peace, but that in times of war he is not entitled to receive a fair rental for the use of his property? If the first inference is the correct one, then section 7 of the proposed Act should be eliminated. On the other hand, if the second inference is correct, then the entire statute is disapproved on the ground that it is confiscatory.

There is another phase of these bills which perhaps has been overlooked by the person who drafted them. I refer to the International Convention, which incidentally particularly interests me because I am chairman of a committee appointed by the American group of the International Association for the Protection of Industrial Property to investigate the question of whether the United State should withdraw from the convention.

The International Convention, article 5, referring to the revocation of a patent and the granting of compulsory licenses, says that:

"In all cases the patent will not be subject to such measures before the expiration of at least 3 years from the date of its grant and if the patentee produces just excuses."

The action of the Government department in making it unlawful for the licensee to pay more than a specified royalty, which is less than that provided for by the license contract, in effect cancels the original license contract and requires the patentee to issue to the contractor a license at a rate prescribed by the Government department. In effect, the Government issues a compulsory license which not only may affect a patent less than 3 years old, but it may affect an invention for which a patent has not issued. Hence, it can be argued that the proposed statute is in conflict with article 5 of the International Convention.

I understand it to be a principle of constitutional law that the question of whether a statute or a treaty controls depends upon which is later, and, in all cases, the later enactment is the controlling. In this respect, there is no difference between a statute or a treaty. Therefore, it would seem that the Convention may be abrogated by the passage of the proposed statute.

Leaving aside the question as to whether or not we should or should not denounce the Convention, either formally or by passage of a statute in conflict with the Convention, I am wondering what would be the effect of that provision of the Convention, article 17 bis., which says that:

"The convention shall remain in force for an unlimited time, till the expiration of 1 year from the date of its denunciation."

You understand that the only objection which I have so far discovered is the Court of Claims remedy (?). I am not ready to express any opinion as to the international convention phase of the matter, because our American group committee has had no opportunity to discuss the matter or to arrive at any conclusion as to whether or not the United States should continue its adherence to the international convention, and I would not want to express here an opinion which might be contrary to that finally arrived at by our committee.

Obviously any question in reference to the international convention could be taken care of by specifying that the statute should apply only to patents more than 3 years old, but I wonder whether such a provision would be considered discriminatory or unsatisfactory to the Government.

Yours very truly,

C. A. SOANS.

OCEAN GATE, N. J., *October 10, 1942.*

Hon. CHARLES KRAMER,
Washington, D. C.

DEAR CONGRESSMAN KRAMER: Thank you for the copy of H. R. 7620, and your letter under date of October 2. I am sorry to advise you that it will be impossible for me to be in Washington on the date given.

It appears to me, however, that a weak portion of the bill is in placing the entire matter under the jurisdiction of "the head of the department or agency of the Government." This feature, no doubt, will be cured at the hearings, of which I would like to have a copy forwarded to me. It is thought that this, or a bill on the same lines should have been introduced some time ago. God knows it would not have been done in Germany.

Most sincerely,

MAXWELL STEVENSON.

WILLIAMSON & WALTON,
Washington, D. C., October 5, 1942.

Hon. CHARLES KRAMER,
Chairman, Committee on Patents,
Washington, D. C.

DEAR MR. KRAMER: I thank you for your letter of October 2 enclosing copy of H. R. 7620 and offering me the opportunity to comment or testify with respect to this bill.

I might say that upon reading this bill it appears to be a much better bill than some previously offered, particularly one for requisitioning or taking over patents and having the President or someone designated by him to adjust the compensation. I cannot recall the number of this previous bill.

H. R. 7620 at this time occurs to me as being one which may more readily adjust differences between the owner of the patent, the licensee, and the Government and may even reduce the extent of the inevitable litigation which will follow the conclusion of the present war. However, since I have been recently appointed on one of the committees of the American Bar Association charged with the consideration of this type of legislation, particularly as it affects suits in the Court of Claims, I think that I should refrain from making any comment which is not that of the committee and up to the present time the committee has not been able to meet. It undoubtedly will do so in the very near future.

Again thanking you for your courtesy and assuring you of my continued cooperation, I am

Very truly yours,

EDWARD R. WALTON, Jr.

WILLIAMS, RICH & MORSE,
New York, October 9, 1942.

Hon. CHARLES KRAMER,
Washington, D. C.

DEAR MR. KRAMER: I duly received your letter of the 2d instant advising me that the House Committee on Patents will begin hearings on Tuesday, October 13, at 10 a. m., on H. R. 7620, a bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes.

This bill, which you enclosed, has been carefully considered by the members of the committee on patents, trade-marks, and copyrights of the New York County Lawyers Association of which I am chairman, and I am directed to advise you that while the general purposes of the bill meet with the approval of the committee, it is nevertheless highly critical of the methods prescribed by the bill, both for adjusting the amount of royalties and for the appeal to the court if the patentee is dissatisfied with the adjustment. It is submitted that the question of readjustment of royalties should be submitted to a board appointed by the President with full power to hear evidence and act upon the application. This board should be an impartial board. The patentee, if dissatisfied, should have the right to appeal to the United States district court rather than to the Court of Claims. The Court of Claims is overloaded with business and its methods are medieval, and it is not a satisfactory court for the adjudication of the rights of inventors.

The general purposes of the bill interfere with the right of contract, but nevertheless if a proper medium is provided for carrying out the purposes of the bill, it will not be objectionable.

I shall not be able to attend the hearing and send this letter in place of attendance.

Sincerely yours,

HENRY D. WILLIAMS,
Chairman, Committee on Patents, Trade-Marks, and Copyrights,
New York County Lawyers Association.

AMERICAN BAR ASSOCIATION,
SECTION OF PATENTS, TRADE-MARKS, AND COPYRIGHT LAW,
October 13, 1942.

Re H. R. 7620.
Hon. CHARLES KRAMER,
Committee on Patents, House of Representatives, Washington, D. C.,

MY DEAR CONGRESSMAN KRAMER: Thanks for your letter of October 2 advising of hearing on the above bill.

I wish to express my personal views on the proposed legislation.

It is discriminatory because it does not apply to any contracts except patent royalty agreements. The total amount of payments under all royalty contracts is negligible compared with the total amount paid for goods and services. Hence, if there is overcharging a very great proportion must be in the form of excessive charges for other things than royalties since human nature is the same whatever is the subject of the contract. Furthermore, there is no one in the Governmen that has had any experience in setting royalty figures. It is very difficult to decide what is a fair royalty because the successful invention must carry the cost of the nine that failed before the problem was solved.

I am also opposed to the bill because I believe the Government can take care of overcharging by conferring with the parties involved and working out adjustments just as some branches of the Government are now doing. In my judgment we are making a serious mistake in passing laws to cure every problem that arises. Many of these laws run absolutely contrary to long established customs, such as freedom of contract, and in the long run custom will win and the law will lose. The law will consequenty be brought into disrespect just as in the bootleg era and we will be overwhelmed by confusion.

Very truly yours,

G. H. WILLITS.

SUPPLEMENTAL STATEMENT OF D. L. KREEGER, ON BEHALF OF ASSISTANT ATTORNEY GENERAL FRANCIS M. SHEA, RE H. R. 7620, A BILL TO PROVIDE FOR ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES, AND FOR OTHER PURPOSES

OCTOBER 19, 1942.

At the hearing concerning the above measure before the House Committee on Patents on October 15, 1942, representatives of the War Department proposed certain amendments to the bill, including the addition of the following provision as section 10:

"If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act, and the applicability of such provision to other persons or circumstances shall not be affected thereby."

This provision is patterned after the so-called "separability clause" which appears in most of the important statutes enacted by Congress during the past decade. The following 22 enactments contain a "separability clause" which is substantially the same as that proposed by the War Department, differing only slightly in form:

Federal Farm Mortgage Corporation Act (48 Stat. 344, sec. 17 (a)); National Industrial Recovery Act (48 Stat. 195, sec. 303); Federal Communications Act of 1934 (48 Stat. 1064, sec. 608); Railroad Retirement Act (48 Stat. 1283, sec. 14); Railroad Labor Act (44 Stat. 587, sec. 11); Railroad Retirement Act of 1935 (49 Stat. 967, sec. 12); Social Security Act (49 Stat. 620, sec. 1103); Public Utility Holding Company Act, 1935 (49 Stat. 806, sec. 32); Bituminous Coal Conservation Act of 1935 (49 Stat. 991, sec. 15); Bituminous Coal Act of 1937 (50 Stat. 72, sec. 13); Selective Training and Service Act of 1940 (54 Stat. 885, sec. 14 (b)); Alien Registration Act, 1940 (54 Stat. 670, sec. 40); Securities Act of 1933 (48 Stat. 74, sec. 26); Securities Exchange Act of 1934 (48 Stat. 881, sec. 33); National Labor Relations Act (49 Stat. 449, sec. 15); Federal Alcohol Control Act (49 Stat. 977, sec. 17 (9) (c)); Fair Labor Standards Act of 1938 (52 Stat. 1060, sec. 19); the Emergency Price Control Act of 1942 (Public No. 421, 77th Cong., sec. 303); the District of Columbia Emergency Rent Act (55 Stat. 788, sec. 12); Soldiers' and Sailors' Civil Relief Act of 1940 (54 Stat. 1178, sec. 603); Act Prohibiting Export of Arms to Belligerent Countries (49 Stat. 1081, sec. 8); Carrier Taxing Act (49 Stat. 974, sec. 13).

A "separability clause" such as is under consideration by this committee has been before the United States Supreme Court on numerous occasions, and has invariably been of value in sustaining the validity of legislation or of a divisible portion thereof. In several cases, an attack against the constitutionality of a statute, based upon the alleged invalidity of provisions not immediately involved in the suit, has proved to be unsuccessful because of a "separability clause" which would permit the bulk of the statute to stand even if the questioned provisions were held invalid. *Electric Bond & Share Co.* v. *Securities & Exchange Commission* (303 U. S. 419, 434 (1938)); *Ohio Tax Cases* (232 U. S. 576, 594 (1914)); *Steward Machine Co.* v. *Davis* (301 U. S. 548, 598 (1937)); *Crowell* v. *Benson* (285 U. S. 22, 62 (1932)); *Sonzinsky* v. *United States* (300 U. S. 506, 512 (1932)); *Highland Farms Dairy* v. *Agnew* (300 U. S. 608, 614 (1937)).

In other cases, where a portion of the statute was struck down as unconstitutional, the "separability clause" has saved the remainder. *Keller* v. *Potomac Electric Power Co.* (261 U. S. 428, 444 (1923)); see *Hill* v. *Wallace* (259 U. S. 44, 71 (1922)); *National Life Insurance Co.* v. *United States* (277 U. S. 508, 522 (1928)).

The "separability clause" is generally held to create a presumption of divisibility—a presumption which can only be overcome by a clear showing that the legislature would in all probability not have been satisfied with what remained after the invalid part was eliminated. *Williams* v. *Standard Oil Co.* (278 U. S. 235, 242 (1929)); *Utah Power & Light Co.* v. *Pfost* (286 U. S. 165, 184 (1932)); *Champlin Refining Co.* v. *Corporation Commission* (286 U. S. 210, 235 (1932)); *Carter* v. *Carter Coal Co.* (298 U. S. 238 (1936)).

Indeed, the omission of a separability declaration from a statute may, under the present state of the law, create a presumption that the legislation is intended to be indivisible, thus imperilling the entire statute by the possible

invalidity of a single provision or a single application. See Stern "Separability and Separation Clauses" (51 *Harv. L. Rev.* 76, 122 (1937)).

The value of a "separability clause" is obvious: It will aid to prevent the thwarting of congressional policy, and may help to sustain the act in its general application notwithstanding a limited invalidity as to certain persons or circumstances. The form of the clause proposed by the War Department follows the accepted pattern in more than 20 important statutes, and has been relied upon by the Supreme Court in numerous cases to sustain legislation.

77TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 2602

ADJUSTMENT OF ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

OCTOBER 22, 1942.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. LANHAM, from the Committee on Patents, submitted the following

REPORT

[To accompany S. 2794]

The Committee on Patents, to whom was referred the bill (S. 2794) to provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments are as follows:

On page 2, line 4, insert a period after the word "licensee", and, beginning with the word "and" in line 4, strike out the remainder of the sentence to and including the word "disposition" in line 10, and insert in lieu thereof the following sentence:

Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however*, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed, and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation.

On page 2, line 11, strike out "thereafter" and insert in lieu thereof the following words: "after the effective date of said notice".

On page 2, line 23, strike out "two" and insert in lieu thereof the following words: "upon receipt or five".

On page 2, line 23, change the period at the end thereof to a comma and add the following words: "whichever date is the earlier."

On page 4, line 15, strike out "redelegation" and insert in lieu thereof the word "delegation".

On page 4, line 16, after "such" insert the following words: "qualified and".

On page 5, line 11, strike out "this Act" and insert in lieu thereof the following words: "the notice provided for in section 1 hereof."

On page 5, line 16, strike out "this Act" and insert in lieu thereof the following words: "the notice provided for in section 1 hereof."

On page 5, line 21, insert after the word "of" at the end of the line the word "settling,".

On page 6, line 4, strike out the figure "1" in parentheses and insert in lieu thereof the small letter "l" in parentheses.

On page 6, line 11, strike out "its date" and insert in lieu thereof the following words: "the date of such agreement".

On page 6, line 18, strike out "found" at the end of the line.

On page 6, line 24, and continuing on page 7, line 1, strike out "and the applicability of such provision to other persons or circumstances".

EXPLANATION OF AMENDMENTS

The amendment on page 2, lines 4 to 10, is recommended by your committee in the belief (as brought out in the hearings on the companion bill H. R. 7620) that, following the receipt of written notice that existing rates or amounts of royalties are believed to be unreasonable or excessive and prior to an order of the head of the Government department or agency concerned fixing and specifying the rates or amounts of royalties which he shall determine are fair and just, the licensor, or the licensee or any other interested party, if he so desires, should, in all fairness, have an opportunity to be heard and to present in writing or in person any facts and circumstances which may, in his opinion, have a bearing upon the issue involved. The adoption of this amendment will afford the licensor or licensee or other interested party a reasonable opportunity to discuss with the department or agency of the Government concerned the amounts and rates of royalties before the issuance of any order fixing such amounts or rates, without danger of delaying or interfering with the war effort, which a formal hearing might entail.

The amendment recommended by your committee on page 2, line 11, is believed necessary to clarify the meaning of the language used, in view of the amendments recommended to be made in section 7, page 5, in lines 11 and 16, which are discussed below.

The amendments recommended by your committee on page 2, line 23 are believed necessary in view of the fact, especially in the light of wartime conditions, that mail addressed to more distant parts of the country, such as the Pacific coast, would require a greater length of time for delivery than the 2 days originally specified in the act as passed by the Senate. The notice would still be effective upon receipt if received by an addressee prior to the expiration of the 5-day period.

The amendments recommended by your committee on page 4, lines 15 and 16, are considered necessary, in view of developments before your committee in the hearings on the companion bill H. R. 7620, to insure that any delegation of authority by the head of the Government department or agency concerned will be made only to qualified and responsible individuals or boards.

The amendments recommended by your committee on page 5 in lines 11 and 16 are considered necessary to define more clearly the royalties to which the provisions of the act will be applicable. While all royalties remaining unpaid at the date of the passage of the act will be carefully scrutinized by the various interested Government departments and agencies, the proposed amendments will insure that the only royalties subject to reduction, if found excessive or unreasonable, are those based on goods to be delivered to the Government from and after the effective date of the notice provided for in section 1 of the act, and those royalties based on supplies already delivered to the Government which have not been paid to the licensor prior to the effective date of such notice.

The amendment recommended by your committee on page 5, line 21, is considered necessary to insure that the power and authority of the head of the Government department or agency concerned to enter into settlement agreements, conferred by section 3 of the act, shall continue undisturbed notwithstanding the termination of the war and the expiration of the 6 months' period thereafter.

The amendment recommended by your committee on page 6, in line 4 is to correct an obvious typographical error.

The amendment recommended by your committee on page 6, in line 11, is made for the purpose of clarifying, without changing, the meaning of the present language.

The amendment recommended by your committee on page 6, in line 18, is believed desirable, inasmuch as use of the word "found" might imply the necessity for a judicial or other finding.

The purpose of the amendment in line 24, page 6, and line 1, page 7, is to assure that the legal effect of section 10 will be that a finding of invalidity as to one provision of the act will not be effective as to any other provision of the act, while assuring that if one provision has been litigated and held invalid, the question of validity may not be relitigated as to other persons or circumstances.

PURPOSES OF THE ACT

The purposes of this measure are:

1. To eliminate the payment of excessive royalties by the Government to the owners of inventions on articles manufactured under licenses to Government contractors or subcontractors;

2. To authorize the head of any Government department concerned to determine the reasonableness of any royalties paid in connection with procurement during the war or the use of patented or unpatented inventions by producers of such articles for the Government;

3. To place the owners of inventions utilized by the Government in the war effort on an equal footing and to permit the Government to exercise its rights to utilize such inventions through the medium of any desired source of supply, without having to pay more than a fair and just compensation to the owners of such inventions;

4. To prescribe the legal remedy of owners of inventions with respect to disputed royalties for the licensed use of such inventions and to establish the procedure for the recovery by such owners of fair and just compensation;

5. To clarify the existing law; namely, the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), with respect to contractors and subcontractors utilizing inventions for the Government; and

6. To authorize the head of the Government department concerned to settle claims arising out of the use of inventions, whether patented or unpatented, for the Government.

This act was introduced at the request of the War Department and the Navy Department to reduce procurement costs resulting from royalties called for by licenses held by Government contractors and subcontractors in which the amounts and rates of royalties have become excessive, due to the unforeseeable increase in production growing out of wartime procurement.

Under the act of June 25, 1910, as amended, supra, the Government has the right to use any invention without license from the owner, and the owner's sole remedy is a suit against the Government in the Court of Claims for the recovery of his reasonable and entire compensation.

It has been the policy of the procuring agencies of the Government because of this law to use, if necessary, any patented or unpatented invention deemed essential in the progam. In many cases agreements for the payments of royalties are made in advance of such use; in other cases payments are made by way of settlement. In cases in which no license agreement exists between the owner of an invention and a Government contractor the United States can and does use all inventions necessary by the simple expedient of expropriation and infringement.

In cases where the owner of the patent has licensed a Government contractor to use the invention, the act of 1910 does not apply. The Government cannot avoid the payment of royalties fixed by such a license, even if unreasonable, because the contractor or subcontractor who uses the invention is legally liable under his license agreement to pay the agreed royalty.

The War and Navy Departments have pointed out to your committee that in great measure the owners of inventions have been most cooperative. They have agreed willingly to reduce royalties in cases where large production due to the war effort has made the returns to the owners out of proportion to the fair and reasonable value of the inventions. In many cases the inventions have been offered on a royalty-free basis. There are cases, however, where the owners have insisted upon receiving royalties which have become unreasonable and do not reflect fair and just compensation to the owners for the inventions. In such cases the Government is hampered in exercising its right to use the inventions upon payment of fair and just compensation because the licensees may be the only sources adequately provided with equipment and knowledge for making most expeditious and efficient use of the inventions.

The War and Navy Departments have cited certain cases which illustrate how patent costs may arise unreasonably in war procurement and the need for this legislation.

In one illustrative case, under existing royalty contracts between an inventor and aircraft companies manufacturing for the Government, the inventor will be entitled to receive approximately $1,750,000. The case is now under investigation by the Army Air Forces with a view to reducing the royalties. The owner of the invention is believed to be willing to negotiate for a reduction in royalties, but as yet such negotiations have not been concluded.

In another case, a company which controlled rolling mills for producing steel plate through patents has licensed various steel companies,

requiring the payment of royalties amounting to 5 percent of the cost of manufacture in these mills. Certain companies among the licensees have contracted with the Ordnance Department of the Army for steel plate for use in making cartridge cases. Their contract costs will include these royalties. The payment of some royalties to the patent owner is undoubtedly justified, but 5 percent appears excessive in view of increased production brought about by the war. The total amount will run into millions of dollars. The War Department is informed that use of the patented equipment will be necessary because unpatented equipment capable of producing the required plate is fully occupied with other production. It is not possible to turn to non-infringing equipment since all equipment must be utilized.

In this case the licensees refuse to deal with the Ordnance Department unless the Government agrees to underwrite the royalties or indemnify the licensees for refusal to pay the royalties. An attempt has been made to induce the owner of the patents to waive royalties on war production, but the owner has refused to do so.

In one pending cost-plus-a-fixed-fee contract, the estimated cost is approximately $5,000,000, one item of which is a 10 percent royalty of approximately $500,000. The fixed fee is slightly over $300,000. The contractor is bound by a license agreement to pay this royalty to a third party and will be liable if he produces the goods. The contractor has the facilities and knowledge to produce the desired equipment and is thus the logical source for it.

In another case, owners of an invention were paid about $20,000 a year in normal times. The owners have now licensed several Government contractors. These contractors are an important source of supply, yet under one contract the owners of the invention stand to receive well over $100,000. Other contracts of a similar size are expected to follow.

In another case several contractors are licensed to pay royalties on both patented and unpatented inventions. These contractors constitute a substantial portion of the entire available sources of supply. They cannot use the inventions without incurring liability for royalties and are thus not available as sources for obtaining the necessary equipment at fair and just compensation to the owners of the inventions because the royalties have become excessive.

In another case, a given piece of equipment could be produced for $65 a unit. The royalty was fixed by a pre-war license agreement at $25. This figure was reasonable before wartime production since the equipment cost about $400 a unit on small production schedules.

EFFECT OF THE ACT

The act will permit the War and Navy Departments to examine existing licenses of Government contractors and subcontractors engaged in war production. Whenever it appears that the amounts or rates of royalties are too great, the department concerned can give notice to the licensee and the licensor. An examination of the problem can then be made and the licensor or licensee, if either desires, may present written or oral statements of facts and circumstances which, in his opinion, bear on the rates and the amounts of royalties. Thereafter, an order can be entered making such adjustments as appear to be warranted by the facts. After the order, the licensee can pay no greater amount of royalties than specified in the

order. The order will apply to royalties unpaid at the time of the original notice whether or not delivery of the equipment embodying the invention has taken place.

The act will have the effect of preventing the collection of royalties by a licensor from the licensee under a royalty contract in amounts greater than those determined to be fair and just by the Government agency concerned. The licensor has an action against the Government for such sum, if any, as he may be entitled to, in addition to the amount already paid, as would make the total constitute fair and just compensation. This is all he could recover in cases of unlicensed use of an invention.

The provisions of the act fulfill the requirements of the fifth amendment to the Constitution.

The Government is protected in suits against it in its ability to avail itself of defenses that might be raised in an action for infringement. This is desirable and proper, because the Government did not take part in negotiating the royalty agreements and in determining the royalties. The Government is merely utilizing inventions at fair and just compensation to the owners as it is entitled to do under existing law, and it is permitted under this act to use all sources of supply.

The act provides for settlement of claims by the procurement authority until suit has been filed against the United States. Thereafter settlement under existing law may be made by the proper authorities. It is believed important in the interests of the owner of the invention, as well as the Government, to authorize settlement of claims arising under the act by procurement authority. Suits against the Government will be thus avoided and money rightfully due to the owners of inventions will be paid without court delays.

The act provides that the Government will obtain credit or recoupment for all reductions in royalty rates and amounts. The contractor or subcontractor does not obtain the benefit of royalty reductions but must pass the saving on to the Government.

SUMMARY

During the hearings your committee heard in public session not only the testimony of representatives of the War and Navy Departments, the Department of Justice, and the Department of Commerce (U. S. Patent Office), but also that of representatives of the National Association of Manufacturers, the patent section of the American Bar Association, the American Patent Law Association, and others. Statements were submitted by many others, a number of which are incorporated in the record. It appears from the testimony and statements that the act as amended is necessary and desirable for the successful and efficient prosecution of the war and is agreeable in principle to and protects the interests of all concerned.

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Reprint from CONGRESSIONAL RECORD IN SENATE—Vol. 88, No. 178, Pages 8482 to 8484, inc., Thursday, October 15, 1942.

[Page 8482]

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS

Mr. Pepper. Mr. President, a parliamentary inquiry.

The Presiding Officer (Mr. Overton in the chair). The Senator will state it.

Mr. Pepper. Is there a bill now pending before the Senate?

The Presiding Officer. Nothing is before the Senate at this time, the unfinished business having been temporarily laid aside by unanimous consent.

Mr. Pepper. I move that the Senate proceed to the consideration of Calendar No. 1693, Senate bill 2794, a bill reported to the Senate by the Committee on Patents. This is a measure recommended by the War Department as an urgent matter. I should like to give a word of explanation of my reasons for making the motion.

Mr. McNary. Will the Senator yield?

Mr. Pepper. I yield.

Mr. McNary. The Senator is making a motion?

Mr. Pepper. I have made a motion.

Mr. McNary. I think it would be better if the Senator would ask unanimous consent; otherwise he would displace the unfinished business.

Mr. Pepper. The point the Senator raises was what led me to ask whether any bill was pending. In view of the situation, I ask unanimous consent that the unfinished business be temporarily laid aside and that the Senate consider Calendar 1693, Senate bill 2794.

Mr. McNary. I make no objection at this time. Let the Senator make his statement, at the conclusion of which I shall be better able to determine whether I shall make objection.

The Presiding Officer. The clerk will state the bill by title for the information of the Senate.

The Chief Clerk. A bill (S. 2794) to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes.

Mr. Pepper. Mr. President, the War Department brought this matter to the attention of the Committee on Patents, and urged all reasonable and possible dispatch by the Congress in the disposition of the bill.

The proposal grows out of a situation in which the licensor of a patent has granted the use of the patent to a licensee upon a fixed royalty basis. The royalty might have been quite appropriate for ordinary peacetime purposes and for the number of uses that might have been made of the license by the licensee. However, since the beginning of the war, there have developed many instances of the Government having a contract with a licensee requiring the manufacture, for example, of possibly millions of units of the article which happened to be the subject of the license, and the payments under the royalty schedule, which might have been made the subject of a private contract between the licensor and the licensee, amounted to an excessive charge against the Government.

In other words, in such instances when the Government finds that the license fee being paid by the licensee to the licensor of a patent respecting an article being manufactured for or used by the Government, or at the Government's direction, in time of war, is excessive, the measure is designed to permit the Government to *reduce the amount of royalty*, and thereafter relieve the licensee of his contract to pay a higher royalty than that which may be directed and approved by the governmental agency. That is the essence of the bill.

Representatives of the War Department and the Navy Department appeared personally before the Committee on Patents, the committee considered the matter, and recommended to the Senate the passage of the bill.

I now see in the Chamber the able Senator from Connecticut [Mr. Danaher], who is a member of the Committee on Patents, and who has given a great deal of time and attention to the subject now before us. I think it

would be desirable for him to make a statement to the Senate about the bill.

Mr. Danaher. Mr. President, I understand that a companion bill to the one being discussed is now before the Committee on Patents of the House of Representatives. Is that not so?

Mr. Pepper. I think that is correct.

Mr. Danaher. Does the Senator from Florida know whether or not hearings have been held on the House bill?

Mr. Pepper. I do not recall whether any hearings have been held on the House bill. It was thought that final consideration of the subject would be expedited if the Senate found itself justified in acting on it, so that the House would have the benefit of the Senate's action.

Mr. Danaher. As the Senator from Florida knows, I am in complete sympathy with the objectives of the bill, but I am led to believe that the House bill differs in several important particulars from the measure now before the Senate.

Substantial criticism has been expressed to me of our failure to provide in section 2 of the measure concurrent jurisdiction for the United States district courts to entertain suits in behalf of a licensor, at least to the extent to which jurisdiction is now conferred under the Tucker Act on the district courts, concurrently with the Court of Claims, in actions against the United States. I do not know that such a provision is necessary. I do know that the committee has discussed at some length the question whether or not it would recommend the inclusion of that particular thought.

However, since the House bill, as I am informed, is at serious variance with the Senate version in several particulars, it might be well to save the point, as it is obvious that a conference will be necessary in any event. Even

[Page 8483]

though we pass the measure and let it go to the House in the form of the Senate bill, in which event, of course, the House will be at liberty to strike out all after the enacting clause and substitute the House bill, it seems to me

that we might save the point were we now to interpolate an amendment which would meet so much of the point with reference to concurrent jurisdiction as I have previously referred to.

Mr. Pepper. I think it would be highly desirable if the able Senator from Connecticut would offer the amendment to which he has referred, and I am sure it would meet with the approval of both the committee and the Senate.

Mr. Danaher. It well may be, let me say to the Senator from Florida, that if the House shares the feeling entertained by the committee hitherto, we can easily eliminate the provision, whereas if the House persists in what I understand to be its feeling on the point, we can retain it and still do no violence to the general purposes, objectives, and attainments of the bill.

Mr. President, with these thoughts I would respectfully move to amend—

Mr. Pepper. Consent has not yet been given to consider the bill.

Mr. Danaher. I beg the Senator's pardon. I understood that consent had been granted.

The Presiding Officer. Is there objection to the present consideration of Senate bill 2794?

Mr. McNary. Mr. President, in view of what has been stated, I have no objection. I have conferred with Senators, and have discussed the matter particularly with the able Senator from Connecticut, who is a member of the committee. In view of the general concurrence, I have no objection.

The Presiding Officer. Is there objection to the request of the Senator from Florida?

There being no objection, the Senate proceeded to consider the bill (S. 2794) to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes, which had been reported from the Committee on Patents with amendments.

The Presiding Officer. The clerk will state the amendments of the committee.

The first amendment of the committee was, in section 1, on page 1, line 3, after the word "That," to insert a

comma and the words "to aid in the successful prosecution of the war"; on line 4, after the word "invention," to strike out "described in and covered by a patent, or an application for a patent, of the United States," and to insert "whether patented or unpatented," so as to make the section read:

That, to aid in the successful prosecution of the war, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States, a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the

last known address of the licensor and licensee and shall be effective 2 days after the mailing thereof.

The amendments were agreed to.

The next amendment was, in section 3, page 3, line 17, before the word "disposition", to strike out "or" and to insert "other"; on the same line, after the word "invention", to strike out "described in and covered by a patent or an application for a patent", and to insert "whether patented or unpatented, and", so as to make the section read:

Sec. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

The amendments were agreed to.

The next amendment was, in section 4, on page 4, line 10, after the word "paid", to strike out "by the Government" and to insert "directly or indirectly"; and on line 12, after the word "refund", to strike out "to the Government"; and on the same line, after the word "paid", to strike out "by it", so as to make the section read:

Sec. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a

corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

The amendments were agreed to.

The next amendment was, on page 4, after line 13, to strike out section 5, section 6, and a part of section 7, as follows:

Sec. 5. The authority and discretion conferred by this act upon the head of any department or agency of the Government may be delegated in writing, in whole or in part, by such head to any subordinate individual, officer, board, or bureau in such department or agency, and such head may further authorize such individual, officer, board, or bureau to make such further delegation of such authority and discretion as may be found necessary.

Sec. 6. For the purposes of this act and the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the manufacture, use, sale, or other disposition of an invention described in and covered by a United States patent or in an application for patent therefor, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or disposition for the United States.

Sec. 7. This act shall apply to all royalties, directly or indirectly chargeable to or payable by the United States for any supplies, equipment, or materials deliverable to the Government from and after the date of the approval hereof.

And to insert:

Sec. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the redelegation of any power and authority conferred by this act to such responsible officers, boards, agents, or persons as he may designate or appoint.

Sec. 6. For the purposes of this act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

Sec. 7. This act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this act. This act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this act.

The amendment was agreed to.

The next amendment was, in section 7, page 6, line 19, after the word "termination", to strike out the word "hereof" and insert the word "thereof", so as to read:

Sections 1 and 2 of this act shall remain in force only during the continuance of the present war and for 6 months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

The amendment was agreed to.

[Page 8484]

The next amendment was, in section 8, on page 7, line 6, after the words "licensee of", to strike out "a patent or patent application covering"; and on page 7, line 7, after the word "invention", to insert "whether patented or unpatented", so as to make the section read:

Sec. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this act. The provisions of section 10 (1) of an act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

The amendments were agreed to.

The next amendment was, on page 7, after line 14, to insert a new section, as follows:

Sec. 9. Nothing herein contained shall be deemed to preclude the applicability of section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be found applicable.

The amendment was agreed to.

The next amendment was, on page 7, after line 19, to insert a new section as follows:

Sec. 10. If any provision of this act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this act shall be inoperative by its terms, the validity or applicability of the remainder of the act, and the

applicability of such provision to other persons or circumstances shall not be affected thereby.

The amendment was agreed to.

The Presiding Officer. That completes the committee amendments. The bill is open to further amendment.

Mr. Danaher. Mr. President, I offer an amendment on page 3, in line 5, after the word "Claims" to insert a comma and the words: "or in the district courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims,".

Mr. Pepper. Mr. President, I thoroughly concur in the amendment the able Senator from Connecticut has offered. It merely gives the district courts concurrent jurisdiction with the Court of Claims in these cases. I think the amendment would be helpful in working out this matter with the House.

The Presiding Officer. The question is on agreeing to the amendment offered by the Senator from Connecticut [Mr. Danaher].

The amendment was agreed to.

The Presiding Officer. The bill is open to further amendment. If there be no further amendments, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading, read a third time, and passed.

The title was amended so as to read: "A bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes."

5 *Reprint from* CONGRESSIONAL RECORD, HOUSE—Vol. 88, No. 184, Pages 8823 to 8825, Thursday, October 22, 1942.

[Page 8823]

ADJUSTING ROYALTIES FOR THE USE OF INVENTIONS FOR THE BENEFIT OF THE UNITED STATES

Mr. Lanham. Mr. Speaker, I ask unanimous consent for the present consideration of the bill (S. 2794) to provide for adjusting royalties for the use of inventions for

the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

The Clerk read the title of the bill.

The Speaker. Is there objection to the request of the gentleman from Texas?

Mr. Plumley. Reserving the right to object, Mr. Speaker, and I shall not object, I understand that the gentleman will undertake to explain the bill.

Mr. Lanham. I shall be glad to make an explanation of the measure, because I think it should be made.

This bill has passed the Senate. It is to provide for adjusting royalty rates for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

The Committee on Patents of the House of Representatives has held hearings for 3 days on this matter.

There has been no objection whatever from any source with reference to the purposes of this measure. Certain modifying amendments were recommended, and through conferences among those who own patents and who represent those who own patents with the representatives of the War Department and the Navy Department, their differences on these amendments have all been settled and their views are incorporated in the measure as now reported, with the committee amendments suggested by the Committee on Patents.

The War Department, the Navy Department, the War Production Board, and the various other agencies of the Government supplying materials for our war effort are vitally interested in the prompt passage of this measure. The prompt passage of it will mean a saving of a great deal of money for the United States. It is important that the measure be passed, and be passed promptly.

The purpose of the measure is this: Under our patents system, those who hold patents are authorized to let people manufacture on royalties the articles covered by the patents or to license their rights of manufacture to someone else upon an agreed rate of royalty. With the magnified and multiplied production in our war effort, the rate of the normal royalty would often mean ex-

cessive and unfair and unreasonable profits to individuals at the expense of our boys who are carrying on on the land and on the sea and in the air.

It is contemplated that in practically all cases these settlements and agreements will be voluntarily made without any difficulty; but there are likely to be some cases—indeed, there are a few of which we know very vital to our war effort in which licensees under patents are claiming very excessive royalties that should not be paid and that are unconscionable.

The purpose of this measure is simply to give a hearing to those who may be owners of patents or licensees of patents, and to agree with the authorities upon a proper rate of royalty for the duration of the war. When that rate has been established, if there is any disagreement, the party considering himself injured has the authority to go either to the Court of Claims on appeal or to the Federal district court where he may reside or where jurisdiction properly pertains.

Broadly speaking, that is the purpose of this bill. I shall be glad to answer any questions that may be asked with reference to it. The gentleman from New Jersey [Mr. Wolverton] has been most cooperative and was at the meeting this morning at which we discussed these amendments.

Mr. Wolverton of New Jersey. Mr. Speaker, will the gentleman yield?

Mr. Lanham. I yield to the gentleman from New Jersey.

Mr. Wolverton of New Jersey. As a member of the Committee on Patents, although not the ranking Republican member, I have no hesitancy whatever in stating to the House that I see no objecton to the granting of the

[Page 8824]

consent request that has been made by the gentleman from Texas [Mr. Lanham]. This bill had full hearings. The interested parties appeared from both the Army and the Navy and from industry in general. Some differences arose as to the interpretation to be placed upon certain

language used in the bill. Subsequent to the conclusion of the hearings, representatives of the Army, the Navy, and industry met together and ironed out those differences, so that the bill for whose consideration the gentleman has asked unanimous consent incorporates the amendments that were agreed upon by all of the interested parties.

This is a bill the importance of which no one will question. No one I know of has any objection to the objective of the bill. The evidence presented to the committee indicated the necessity of immediate action. The enactment of the bill will prove helpful and beneficial in our war effort.

I hope that the membership of the House will not be unwilling to grant the request made by the gentleman from Texas [Mr. Lanham]; and that the bill may have the speedy and full approval of the House.

Mr. Lanham. I thank my distinguished friend from New Jersey.

The Speaker: Is there objection to the request of the gentleman from Texas?

There was no objection.

The Clerk read as follows:

Be it enacted, etc., That, to aid in the successful prosecution of the war, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee and in said notice, or within a reasonable time thereafter, shall by order fix and specify such rates or amounts of royalties, if any, as he shall de-

termine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition. Such licensee shall not thereafter pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective two days after the mailing thereof.

Sec. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the district courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title 60 of the Revised Statutes, or otherwise.

Sec. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, wheth-

er patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

Sec. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

Sec. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the re-delegation of any power and authority conferred by this act to such responsible officers, boards, agents, or persons as he may designate or appoint.

Sec. 6. For the purposes of this act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by

a contractor, a subcontractor, or any person, firm or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

Sec. 7. This act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of this act. This act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of this act. Sections 1 and 2 of this act shall remain in force only during the continuance of the present war and for 6 months after the termination thereof, except that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this act shall be treated as remaining in force and effect for the purpose of sustaining, qualifying, or defeating any suit or claim hereunder.

Sec. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this act. The provisions of section 10 (1) of an act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said act shall mean and include an agreement for the payment of royalty, regardless of its date, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

Sec. 9. Nothing herein contained shall be deemed

to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be found applicable.

Sec. 10. If any provision of this act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this act shall be inoperative by its terms, the validity or applicability of the remainder of the act, and the applicability of such provision to other persons or circumstances shall not be affected thereby.

With the following Committee amendments:

Page 2, line 4, after the word "license", insert a period and strike out the remainder of the line and down to and including the word "disposition" in line 10, and insert "Within a reasonable time after the effective date of said notice, in no event less than 10 days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he so requests within 10 days from and after the effective date of said notice, may within 30 days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation."

Page 2, line 11, after the word "not", strike out the word "thereafter" and insert "after the effective date of said notice."

Page 2, line 23, strike out the word "two" and insert "upon receipt or five."

Page 2, line 23, after the word "thereof", strike out the period, insert a comma, and add the words "whichever date is the earlier."

Page 4, line 15, strike out the word "re-delegation" and insert "delegation."

Page 4, line 16, after the word "such", insert "qualified and."

Page 5, line 11, after the word "of", strike out the words "this act" and insert "the notice provided for in section 1 hereof."

Page 5, line 16, after the word "of", strike out the words "this act" and insert "the notice provided for in section 1 hereof."

Page 5, line 21, after the word "of", insert the word "settling,".

Page 6, line 4, strike out "(1)" and insert "(ell)."

[Page 8825]

Page 6, line 11, after the word "of", strike out the words "its date" and insert "the date of such agreement."

Page 6, line 24, after the word "Act", strike out the words "and the applicability of such provision to other persons or circumstances."